

**Montgomery County, Maryland**  
**Office of the County Executive**  
**Office of Internal Audit**



**Montgomery County Disability Benefit Payments**

**October 23, 2013**

# Highlights

## Why MCIA Did this Audit

This audit was conducted as part of the implementation of the County's risk-based three-year Audit Plan. The Plan was developed through a comprehensive County-wide Risk Assessment in May 2010 by the County Executive's Office of Internal Audit (MCIA). This audit focused on the disability benefits paid to members of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP) and the Guaranteed Retirement Income Plan (GRIP). As of July 1, 2012 the ERS, RSP and GRIP had 1,077 and 58 individuals receiving benefits, respectively. The Montgomery County Office of Human Resources (OHR) was responsible for administering the retirement benefit plans from enrolling plan participants, counseling potential retirees, determining eligibility for retirement, calculating retiree benefit payments, and maintaining retiree records. As of July 1, 2012 the Montgomery County Employee Retirement Plans (MCERP) organization has oversight of the activities previously performed by OHR except for employee enrollment in retirement plans and health insurance.

## What MCIA Recommends

MCIA is making no recommendations. MCERP accepts the details of the report and has indicated that they it has addressed the matters raised in the report.

OHR's response did not indicate disagreement with the facts presented in the report; however, OHR expressed concern with the tone of the report. We believe the report accurately and appropriately represents the results of our audit.

**OCTOBER 2013**

## Montgomery County Disability Benefit Payments

### What MCIA Found

The Office of Human Resources (OHR) had generally designed and implemented internal controls to ensure disability benefit payments from ERS and the Montgomery County Disability Benefits Plan (DBP) are in accordance with applicable Montgomery County regulations. However, in testing 100 payees, to determine the accuracy of benefit calculations and payments, we found seven employees with nine payment exceptions associated with the amount of disability benefit payments made. The exceptions related to these seven employees resulted in benefit over and under payments that ranged from \$600 to \$3,800.

The nine payment exceptions involved improper adjustment or non-adjustment of earnings (3), non-application of annual cost of living adjustment (1), incompleteness of earnings information (3), and use of the incorrect benefit payment formula (2). Two of the improper adjustments to earnings and the two instances of using the incorrect benefit payment formula were corrected during the course of the audit by MCERP and the remaining items, related to five separate employees, were in process of being researched and resolved by MCERP.

We found the following areas where the design and operation of internal controls as implemented by OHR needed improvement (1) review of disability calculations and payment for errors in the application of payment adjustments; (2) archival and retention of key process documentation supporting benefit approval or payment calculation; (3) performance of reviews to determine annuitants continued medical eligibility to receive benefits, and (4) performance of reviews of annuitants income (other than disability payments from the County) to determine the need to adjust or cease the benefit amount being paid. MCERP has advised us that it has implemented internal controls and procedures that address these four issues and as a result, we have not made recommendations associated with these matters.

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## Objectives

This report summarizes the work performed by Cherry Bekaert LLP (Cherry Bekaert) in an internal audit of the disability payments being made either from the Employees' Retirement System (ERS) or the County's Disability Benefits Plan (DBP)<sup>1</sup>. The scope of this engagement included reviewing the payment of benefits to disability payees, as well as underlying data and processes from the County that supports the determination of eligibility. The objectives of the audit were as follows:

- Test whether employees or former employees receiving disability payments meet disability benefit eligibility requirements and have been evaluated for continuation of eligibility for disability benefits.
- Test whether disability payments made to employees or former employees are being made in accordance with applicable Federal, State, and County Laws and Regulations.
- Test whether the system of internal control over the determinations and approval of disability benefits is operating efficiently and effectively.
- Compare the County's policies and procedures related to the disability programs with that of industry best practices.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards established by the Government Accountability Office as appropriate. Our proposed procedures, developed to meet the objectives stated above, were reviewed and approved in advance by Montgomery County Internal Audit (MCIA). Interviews, documentation review, and field work were conducted from January 2012 to May 2013.

## Background

### General

Montgomery County provides disability benefits to ensure their employees have income in the event that they become unable to perform their duties. County employees can be awarded disability benefits based on the retirement plan in which they participate. County employees in the ERS can be awarded disability retirement benefits. County employees in the Retirement Savings Plan (RSP) and Guaranteed Retirement Income Plan (GRIP) can be awarded long-term disability benefits. Factors such as employee date of hire and position determine which plan an employee is eligible to join. Table 1 details the County's retirement plans and the disability types within the respective plan.

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<sup>1</sup> The Disability Benefit Plans

**Table 1 – Retirement Plans and Disability Types**

Retirement Plan	Retirement Plan and Disability Type Description
<b>Employees' Retirement System (ERS)</b>	<ul style="list-style-type: none"> <li>• Defined benefit plan.</li> <li>• Established in 1965</li> <li>• Provide a pension for full-time and career part-time paid employees of Montgomery County and certain outside agencies<sup>2</sup> that elected to participate.</li> <li>• The outside agencies are fully responsible for the cost of coverage for their employees.</li> <li>• Currently closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and those employees who elect to participate in the Guaranteed Retirement Income Plan.</li> <li>• Participants contribute a percentage of their salary to the plan and that percentage is determined by their retirement group.</li> <li>• County contributions to the plan are actuarially determined.</li> <li>• Disability benefits are based on factors such as retirement group, disability category: Service Connected or Non-service Connected, years of service, and salary and are paid from the ERS.</li> </ul>
<b>Retirement Savings Plan (RSP)</b>	<ul style="list-style-type: none"> <li>• Defined contribution plan.</li> <li>• Established in 1994 to provide retirement benefits for non-public safety employees and certain public safety employees hired on or after October 1, 1994 as well as employees of outside agencies<sup>2</sup> that elected to participate.</li> <li>• Full-time eligible employees may elect to participate in the plan after 6 months of employment.</li> <li>• Participants contribute a percentage of their salary to the plan and the percentage is determined by the County Code.</li> <li>• County contributes to the plan for each employee equal to a percentage of the employee's salary. This percentage is subject to change each fiscal year.</li> <li>• Employees are responsible for making investment decisions for their account.</li> <li>• Disability benefits are determined by the disability category: Service Connected or Non-service Connected and are paid from the Disability Benefits Plan.</li> </ul>

<sup>2</sup> Outside agencies participating in the ERS include the Housing Opportunities Commission, Montgomery County Revenue Authority, Strathmore Foundation, Town of Chevy Chase, Washington Suburban Transit Commission, Maryland State Department of Taxation, and District Court of Maryland.

Retirement Plan	Retirement Plan and Disability Type Description
<b>Guaranteed Retirement Plan (GRIP) Income</b>	<ul style="list-style-type: none"> <li>• Cash Balance Plan.</li> <li>• Established in 2008 to provide retirement benefits for non-public safety employees and certain public safety employees hired on or after January 1, 2009 as well as employees of outside agencies<sup>2</sup> that elected to participate.</li> <li>• Full-time eligible employees may elect to participate in the plan after 6 months of employment.</li> <li>• Participants contribute a percentage of their salary to the plan and the percentage is determined by the County Code.</li> <li>• County contributes to the plan for each employee equal to a percentage of the employee's salary. This percentage is subject to change each fiscal year.</li> <li>• Employees earn a stated earnings rate as defined within the County Code</li> <li>• Disability benefits are determined by the disability category: Service Connected or Non-service Connected are paid from the County's Disability Benefits Plan.</li> </ul>

The contributions and benefit payment formulas for the County's retirement plans and the Disability Benefits Plan are defined within the Code and can include collective bargaining agreements that the County Council has approved. The County currently has agreements with the following employee groups:

- Fraternal Order of Police, Montgomery County Lodge 35 (FOP) represents sworn police officers.
- Local #1664, Montgomery County Career Fire Fighters Association of the International Association of Fire Fighters, AFL-CIO (IAFF) represents paid fire fighters, paid fire officers and paid rescue service personnel.
- Municipal & County Government Employees Organization, United Food and Commercial Workers, Local 1994 (MCGEO) represents public safety employees such as sworn deputy sheriffs and correctional officers and certain designated non-public safety employees.

There are several parties, both internal and external, that are involved in the administration, management and oversight of the disability benefit programs thru fiscal year 2012 when OHR had oversight over the process. Table 2 below details these parties and their roles. Unless

indicated the parties continued in their role beyond fiscal year 2012. Policies and procedures reviewed as part of this audit were followed and performed by parties listed in Table 2.

Starting in fiscal year 2013, administration for the County's retirement plans and the DBP previously performed by OHR moved to a new organization, the Montgomery County Employee Retirement Plans (MCERP). MCERP oversees all facets of the retirement plans including investment, administration, and accounting. Table 3 details the new parties and their roles starting in fiscal year 2013.

**Table 2 – Disability Program Roles**

Party	Responsibility
Montgomery County Board of Investment Trustees (BIT)	Responsible for overseeing the investments of the ERS with exclusive authority to manage the assets of the retirement system. The BIT makes day-to-day investment decisions. In addition, BIT selects investment options to be offered in the RSP. BIT also wire transfers funds to Aetna, the third-party payer of benefits, for payment of all annuities & disability benefits from the Disability Benefits Plan.
Montgomery County Office of Human Resources – Benefits (OHR)	Until July 1, 2012, was responsible for administering the County's retirement benefit plans, enrolling employees, maintaining retiree records, the payment of benefits, and providing direct service to employees and retirees regarding retirement benefits. The benefits team processed the paperwork to set up new retirees and was responsible for calculating each retiree's benefit payment, as well as the payment of the benefit.
Disability Arbitration Board (the Board)	Designated to review an appeal of the Chief Administrative Officer's final decision regarding an application for disability benefits.
Disability Review Panel (DRP)	Medical doctors appointed by the Chief Administrative Officer to review medical records. The DRP requires a maximum of four and no fewer than two members. In all cases, at least two members must vote in favor of a decision to take any action.
Montgomery County Attorney's Office (OCA)	Responsible for reviewing investment contracts for the BIT. OCA also handles questions and issues as they arise regarding benefit administration, as well as tax issues. In addition, OCA drafts legislation affecting retirements and reviews the summary plan documents for each retirement plan based on the County Code. Reviews DRP reports and confirms

Party	Responsibility
	compliance with all laws, policies, and procedures.
Montgomery County Chief Administrative Officer (CAO)	Formulates administrative procedures to implement requirements of the law and personnel regulations. The CAO gives final approval of any disability benefit to be paid.
The Montgomery County OHR Director	Until July 1, 2012, reviewed DRP reports and made recommendations to the CAO regarding final approval or non-approval of benefits.
Aetna	Third-party responsible for making the pension benefit payments and payments from the Disability Benefits Plan through February 2012.
Montgomery County Payroll Department	Responsible for processing the file sent to it by MCERP for annuity payments and payments from the Disability Benefits Plan effective March 2012.
Mercer (Actuary) - thru 12/31/12	Until December 31, 2012, third-party responsible for providing actuarial estimates of the ERS' liabilities and expenses. Mercer, and now GRS, also calculates the contribution rates that the County should pay into the plan based on each retirement group.

**Table 3 – Disability Program Roles**

Party	Responsibility
Montgomery County Employee Retirement Plans (MCERP)	As of July 1, 2012, responsible for administering the County's retirement benefit plans, maintaining retiree records, the payment of benefits, and providing direct service to employees and retirees regarding retirement benefits. The organization processes the paperwork to set up new retirees and is responsible for calculating each retiree's benefit payment, as well as the payment of the benefit.
MCERP Executive Director	As of July 1, 2012, reviews DRP reports and makes recommendations to the CAO regarding final approval or non-approval of benefits prior.
GRS (Actuary) – commencing 1/1/13	As of January 1, 2013, third-party responsible for providing actuarial estimates of the ERS' liabilities and expenses. Mercer, and now GRS, also calculates the contribution rates



Party	Responsibility
	that the County should pay into the plan based on each retirement group.

## Disability Overview

### **Employees' Retirement System (ERS)**

The Montgomery County ERS is governed by the Montgomery County Code, Part II, Chapter 33, Article III. The Code defines the ERS and its policies, administration, eligibility criteria, and benefit payment requirements. Contributions to the program are made by the County and employees. The County's contribution into the ERS program is determined each fiscal year by an actuarial calculation computed based assumptions approved by the Chief Administrative Officer. Employees' contributions to the program are defined by the County Code and made from payroll deductions. A special benefit under the system is disability retirement. An employee's eligibility for disability retirement will depend on whether the disability is classified as service or non-service connected. See Appendix A, Table A-1 for details of plan options under the ERS system, Table A-2 for the group options under the ERS plans, and Table A-5 for the disability eligibility requirements.

### **Retirement Savings Plan (RSP)**

The Montgomery Country RSP is governed by the Montgomery County Code, Part II, Chapter 33, Article VIII. The Code defines the RSP and its policies, administration, eligibility criteria, and benefit payment requirements. Contributions to the program are made by the County and employees as defined by the County Code and made from payroll deductions. Participants of the RSP plan are eligible for the Long-Term Disability Plan (LTD) based upon being budgeted to work at least 20 hours per week. Qualification for benefits depends on an individual meeting the LTD plan definition of being disabled See Appendix A, Table A-3 for a list of membership groups under the RSP program.

### **Guaranteed Retirement Income Plan (GRIP)**

The Montgomery Country GRIP is governed by the Montgomery County Code, Part II, Chapter 33, Article III. The Code defines the GRIP and its policies, administration, eligibility criteria, and benefit payment requirements. Contributions to the program are made by the County and employees as defined by the County Code and made from payroll deductions. Participants of the GRIP plan are eligible for the Long-Term Disability Plan (LTD) based upon being budgeted to work at least 20 hours per week. Qualification for benefits depends on an individual meeting the LTD plan definition of being disabled. See Appendix A, Table A-3 for a list of membership groups under the GRIP program.

### Disability Benefit Payments

Disability benefit payments are determined by one of the formulas detailed below. The factors used to determine which disability benefit payment formula to apply to an employee are defined in the County Code.

1.) [Defined Percentage] x [Average Final Earnings or Final Earnings] x [Years of Credited Service]

**or**

2.) [Defined Percentage] x [Final Earnings]

### Disability Categories

There are two disability categories in which an employee can retire under the ERS disability plan. An employee can retire as Non-Service Connected Disability (NSCD) or Service Connected Disability (SCD). Employees can retire under Early or Normal Retirement and be retroactively approved for NSCD or SCD at a later date. See Appendix A, Table A-5 for the service years and age eligibility requirements for disability retirement.

**Table 4 – ERS Disability Categories**

<b>ERS Retirement Types</b>	<b>Summary Description</b>
Non-service Connected Disability	Become mentally or physically incapacitated from further performance of job as a result of illness or injury after being enrolled as a member that is not job related and have 5 years of credited service.
Service Connected Disability	Become physically incapacitated from further performance of job as a result of illness or injury that is job related.

The County's Disability Benefits Plan provides for two disability categories and three disability types. An employee can retire under the Non-Service Connected Disability (NSCD) or Service Connected Disability (SCD) category and then under the Initial Disability, Temporary Disability, or Continuing Disability type.

**Table 5 – Disability Benefits Plan Disability Categories**

Benefit Type	Summary Description
Service-Related Disability	Condition due to an accident, illness or occupational disease incurred, or condition which is aggravated while performing your duties as an employee.
Non-service-Related Disability	Condition due to an accident, or illness, or injury that is not the direct result of performing your duties as an employee.

### IT Systems

In January 2011, the County converted all legacy benefit systems to a new Enterprise Resource Planning (ERP) system. As a result of the system conversion, the ERS program, as well as the Disability Benefits Plan, is now administered using the Oracle and PeopleSoft systems. See Table A-4 in Appendix A that details the legacy systems that were converted to Oracle and PeopleSoft. Documents reviewed as part of the audit were from both the legacy and current systems.

### Disability Benefit Overview<sup>3</sup>

#### Application

Prior to July 1, 2012, an employee that believes they qualify for a disability benefits would have a counseling session with OHR Benefits. The OHR benefits specialist will go through a checklist with the employee explaining procedures and benefits and then both the employee and benefits specialist must sign and date the form to acknowledge that the counseling session took place. An employee that decides to apply for disability benefits must fill out an Application for Disability Benefits and an authorization for release of medical records. OHR Benefits will forward the completed forms to the Office of Medical Services (OMS). If an employee is selecting service connected disability, an application must be submitted within one year from separation from County service or, if the member is a sworn police officer, within five years after the date of the accident.

According to MCERP management, after July 1, 2012, MCERP now requires that all applicants applying for disability benefits be provided copies of their current accrued benefit, as well as the various disability benefit options available under the ERS or DBP. These documents are scanned and stored in the Retirement Imaged File by applicant.

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<sup>3</sup> Policies and procedures in effect thru June 30, 2012 were reviewed as part of this audit.

### Application Review and Approval

After submitting an application, the employee is required to have all relevant medical records forwarded to OMS within 30 days of OMS receiving the application. The Application for Disability Benefits and submitted medical records are reviewed by the Disability Review Panel (DRP), a panel of medical doctors, who make a determination as to whether there is a disability and whether it is service connected or non-service connected. The panel's recommendation regarding their disability determination is forwarded to the County Attorney's office. The County Attorney will review the case and ensure all laws, policies, and procedures were complied with. The County Attorney will sign off on the case and send it to the Director of OHR. The Director of OHR will transmit the file to the Chief Administrative Officer, who, by regulation, makes the final decision on whether or not to grant a disability retirement. Once the disability benefit is decided, a letter is sent to the employee notifying him or her of the decision. If approved, OHR will calculate the amount of the benefit payment awarded under the various options available, will contact the individual, and conduct a counseling session where the required forms are completed and selection of the benefit payment option occurs.

According to MCERP management, after July 1, 2012 medical records are now forwarded to MCERP. In addition the MCERP Executive Director receives the communication from the County Attorney regarding sign off on the case. The MCERP Executive Director also assumed responsibility for transmitting the file to the Chief Administrative Officer for final approval. Once the awarding of benefits are approved, MCERP will calculate the amount of the benefit payment awarded under the various options available, will contact the individual, and conduct a counseling session where the required forms are completed and selection of the benefit payment option occurs.

### Appeals Process

If an employee is denied disability benefits, he or she has the right to appeal the disability decision to the Disability Arbitration Board. In addition, employees who have been awarded disability can seek appeals on the disability type (i.e., non-service vs. service connected). The Board will review the CAO final decision<sup>4</sup> and hold a hearing with the employee and the County.

### Disability Benefit Payment Calculation

The annual disability benefit is calculated using one of the formulas detailed below. The payee's monthly payment is 1/12<sup>th</sup> of the annual payment:

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<sup>4</sup> Montgomery County Code Part II Chapter 33, Section 43(b)

1.) [Defined Percentage]<sup>5</sup> x [Average Final Earnings or Final Earnings] x [Years of Credited Service]

**OR** a minimum of

2.) [Defined Percentage] x [Final Earnings]

The factors in the formula are determined by the employee's retirement plan and group. Those factors are confirmed prior to calculating an annuitant's annual disability benefit.

- **Defined Disability Benefit Percentage:** This is the percentage of final earnings or average final earnings the payee is entitled to receive as a benefit. This percentage is pre-determined within the County Code and varies depending on the plan and retirement group to which the payee is a member. The percentage is documented in the Summary Plan Descriptions. For example for Group E the percentage is 2.4% for each year of credited service up to 25 years of service (i.e., 60% of annual compensation as defined if 25 years of service completed) and 2% for each year of credited service for years of service beyond 25 years and below 31 years (i.e., up to an additional 12% of annual compensation as defined 6 additional years of service are completed).
- **Average Final Earnings (AFE):** Includes all eligible wages an employee has earned, excluding overtime wages but including any applicable differentials for either a period of 12, 18, or 36 months<sup>6</sup>. The time period for consideration is determined by an annuitant's retirement plan<sup>7</sup> and is documented in the Summary Plan Descriptions. See Appendix A, Table A-6 for the AFE calculation formulas for the ERS and RSP programs.
- **Final Earnings (FE):** The regular earnings of a member as of the last date of active service.
  - ERS: annualization of last payment received (Final payment \* 26 pay periods).
  - RSP/GRIP: average annual pay earned at the County or participating agency (less shift pay differential) for the 18 consecutive-month period for which the member earned the most money.
- **Years of Credited Service:** Credited service includes regular service, purchased service, transferred service, military service and unused sick leave up to a maximum of 2 years. The maximum years of credited service allowed is determined by the retirement group to which the annuitant is a member.

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<sup>5</sup> Percentage is determined by retirement plan and retirement type.

<sup>6</sup> ERS – Depending on plan average final earnings are calculated over a 12 or 36 month span. RSP – average final earnings is calculated over an 18 month span. See Appendix A, table A-6

<sup>7</sup> Plan Designations: Optional Non- Integrated and Integrated -12 months, Mandatory Integrated- 36 months

- **Disability Benefit Minimums<sup>8</sup>:**

- Per the County Code<sup>9</sup>, payees under the disability category Non-service Connected Disability cannot have a benefit amount less than 33 1/3% of the payee's final earnings. If the calculated benefit per the benefit formulas is below 33 1/3% of final earnings, then the benefit amount will be set at 33 1/3% of final earnings.
- Payees under the Service Connected Disability category cannot have a benefit amount less than 66 2/3% of the payee's final earnings. If the calculated benefit per the benefit formula is below 66 2/3% of final earnings, then the benefit amount will be set at 66 2/3% of final earnings.

*ERS Disability Benefit Payment Additional Calculations and Adjustments*

For ERS members, depending on the employee's retirement plan, there are additional calculations, adjustments and factors that must be considered when determining disability benefits. See appendix A, Table A-7 for the benefit payment options for the ERS program.

- **Social Security Considerations:** Employees in the optional or mandatory integrated<sup>10</sup> plans that choose a payment option with a social security adjustment must have their disability benefit payments calculated in two parts. In addition to the basic calculation detailed above, a second calculation of benefits for when the retiree reaches Social Security Normal Retirement Age (SSNRA) must be performed. The second calculation includes the IRS-determined Social Security Covered Compensation Level (SSCCL)<sup>11</sup> for the retiree in the calculation. The second calculation is detailed below.

[(Defined Percentage x AFE up to SSCCL] + [Defined Percentage x AFE above SSCCL]) x Years of Credited Service

- **Cost of Living Adjustment (COLA):** Per the County Code<sup>12</sup>, ERS disability benefits are adjusted annually to reflect the increased or decreased cost of living as determined by the Consumer Price Index (CPI). Members of the optional non-integrated and optional integrated plans receive an adjustment of 100% of the CPI change. Members of the mandatory integrated plan receive an adjustment of 100% of the CPI change up to 3% and 60% of the CPI change greater than 3% up to a total adjustment of 7.5%. The maximum of 7.5% does not apply to disability annuitants or retirees over age 65.

<sup>8</sup> For RSP participants, the SCD minimum percentage is the same as ERS; the NSCD minimum percentage for RSP is 30%.

<sup>9</sup> Montgomery County Code Part II, Chapter 33, Section 43.

<sup>10</sup> See Appendix A , table A-1 for descriptions

<sup>11</sup> This is the maximum dollar amount of earnings upon which social security benefits are based. It is based on the average of 35 wage base years prior to SSNRA. The amount used in the calculation is determined by the retiree's date of birth.

<sup>12</sup> Montgomery County Code Part II, Chapter 33, Section 44.

- **Phantom General Wage Adjustment (PGWA):** Due to economic conditions, the County did not have a general wage adjustment (GWA), or salary increase, in fiscal year 2010. As part of its negotiations with the unions, the County implemented the PGWA in lieu of a GWA for individuals who were employed at July 1, 2009 and who applied for disability benefits before May, 19, 2010. The PGWA only applies to fiscal year 2010 earnings. The percentage increase added to earnings was negotiated and varies according to retirement group. Table 5 below details the PGWA percentage for each retirement group:

**Table 5 – PGWA Percentages**

Group	Plan Type	Percentage
<b>F</b>	Mandatory Integrated or Optional Integrated	4.25%
<b>A, E, H</b>	Mandatory Integrated or Optional Integrated	4.5%
<b>G</b>	Mandatory Integrated or Optional Integrated	4.00%

- **Code Change to Disability Benefit Formula: In a County code change** effective June 26, 2002 or after, the disability benefit formula for Group F and Group G members changed to use of the greater of Average Final Earnings and Final Earnings in the calculation of disability benefits.

#### Disability Benefit Payment Options

Under ERS, payees have seven benefit payment options, if eligible, they can select. In addition, some payment options include adjustment in benefits paid when the payee reaches SSNRA. See Table A-7 in Appendix A for a summary table of payment options available to an ERS retiree.

Members of RSP & GRIP have only one payment option to receive a monthly payment from the DBP as defined in the County Code.

#### Reemployment Overview

The County allows certain types of payees to return to work with the County. The effect on the disability payments is determined by the employee's original retirement designation and the rules as defined within the County Code. Certain disability payees returning to employment will have disability payments stopped and must rejoin the retirement system and resume making employee contributions to the program.

#### Reevaluation Process Overview

The reevaluation process varies slightly depending on the type of disability benefits being paid and the County Code requirements. For ERS Plan members, re-evaluations must occur annually when the payee is within five years of his/her effective disability benefit date. Once the

five year threshold is passed, the re-evaluations are only required every three years. At a certain age (differs by group), the annuitant is exempt from any re-evaluations.

Persons receiving continued benefits from the DBP, must be re-evaluated annually, as defined within the County Code, until the Administrator finds that a physical examination in a specific case is unnecessary. Details by plan are as follows:

**Table 7 – Reevaluations**

	<b>ERS Groups A &amp; H</b>	<b>ERS Groups E, F &amp; G</b>	<b>Disability Benefits Plan</b>
<b>Age at which re-evaluations no longer required</b>	60	55	No age limit.
<b>Frequency of re-evaluations within 5 years of retirement</b>	Every year	Every year	Annual
<b>Frequency of re-evaluations after 5 years of retirement</b>	Every 3 years	Every 3 years	Annual

#### Reduction in the amount paid from the Disability Benefits Plan Overview

Benefits paid from the Disability Benefits Plan can be reduced for the following reasons as outlined in the Summary Plan description<sup>13</sup>:

- **Other LTD Benefits:** Benefits will be reduced one dollar for each one dollar an individual receives from:
  - Social Security disability benefits (including benefits paid to your dependents because of your disability)
  - Any other government group income maintenance insurance coverage
  - Any government disability plan
  - The Employees' Retirement System
  - The GRIP or RSP – any amount you are entitled to receive (i.e., your plan account ) for a public safety employee
- Payments received as a lump sum, the LTD benefit will be adjusted as if the lump sum were being paid as an annuity
- Retroactive payments received for Social Security disability benefits, the County must be reimbursed for any retroactive benefits covering the period of time LTD benefits were paid. .
- The benefit calculated under this formula may be adjusted by benefits from other sources and you may receive less than 30% of your final earnings.

<sup>13</sup> Per the Montgomery County Disability Benefits Plan Summary Plan Description



- **Employment:** Your County disability benefit will be reduced one dollar for each three dollars of your earnings or income you receive because of employment, including net earnings from self-employment.
- **Workers' Compensation:** The LTD payment you receive from the County is subject to a reduction by any workers' compensation award for which you may be eligible. If you are eligible for both and your disability benefit is greater than what you are entitled to receive from workers' compensation, you will receive only the disability benefit. (Your LTD payment satisfies the County's workers' compensation obligation.) You must report any change in your income to OHR (after 7/1/12 to MCERP).

## Scope and Methodology

We performed our review of disability benefit payments in two phases. In Phase I, we gained an understanding of the policies, procedures and internal controls and performed limited testing of transactions to confirm our understanding. In addition, we also obtained an understanding of the status of implementation of recommendations from the 2008 Office of the Inspector General (OIG) report, *Montgomery County Government Retirement Program*<sup>14</sup> and the related CAO response dated July 26, 2010 (hereafter collectively referred to as the "OIG report"). In Phase II, we performed detailed testing of benefit calculations and analysis of reevaluations for a large population of benefit recipients. The policies, procedures and internal controls reviewed under this audit were designed, implemented and operated by OHR.

### Phase I Procedures

Procedures performed in Phase I consisted of interviewing responsible officials from OHR, DRP, and MCERP to gain an understanding of the disability application, eligibility determination, and benefit approval process. These procedures were also done to review and assess implementation of recommendations from the OIG report. In addition, we reviewed documentation supporting the request, review, approval and appeal of disability benefits and performed testing on a sample of applications to determine the design and operation of internal controls surrounding this process.

During Phase I, we discussed with OHR their implementation of the OIG report recommendations. OHR told us that no action or progress had been taken on recommendation on enforcement of earning limitations, which allows for the reduction of disability pension payments under certain situations, and the implementation of Bill 37-08, which allows for the reduction of disability payments based upon payments made by another employer for the same injury. Based upon the comments, we deemed no additional work was required to follow upon on the report recommendations. See Appendix B for the results of Phase I testing.

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<sup>14</sup>This refers to the OIG report, *Montgomery County Government Disability Retirement Program*, published September 2008 as well as the CAO response dated July 26, 2010.

### Phase I Sample Selection

For our limited testing, we obtained from OHR Benefits the Disability Retirement Case Listing as of February 2012<sup>15</sup>.

We segregated the listing of 122 cases into three categories based upon the case status as defined below. We determined that a sample of 12 cases would be sufficient to gain an understanding of the design of the internal controls developed by the County. These cases were reviewed to ensure that transactions are properly approved and recorded and to design an approach for our Phase II testing. Internal controls over the determination of eligibility for disability retirement have been implemented and are operating as designed as well as the objective of determining if transactions are processed in accordance with County policies and procedures. All cases were randomly selected. In addition, we ensured our sample included one case that was remanded for review by the Appeals Board and one case that was under Code required re-evaluation.

**Table 8 – Phase I Sample Breakdown**

<b>Category</b>	<b>Description</b>	<b>Number of Cases Sampled</b>	<b>Exceptions</b>
Active Cases	An individual whose case has been brought before the DRP however a decision has yet to be rendered	4	8
Completed Cases	Individuals whose case has been brought before the DRP and a decision has been rendered on their status	4	4
Appeals Cases	Individuals whose case is under appeal before the DRP.	4	0
Total		<b>12</b>	<b>12</b>

### Phase I Results

We did not find any internal control exceptions in our Phase I testing; therefore, we determined that no additional review was warranted of the disability application and approval process. However, we did note exceptions related to the implementation of recommendations outlined in the OIG Report. Attributes tested for each case category can be found in Appendix B. The 8 exceptions noted for active cases and 4 exceptions noted for completed cases all related to not using required software. See the specifics in Table 8 below. There were no exceptions noted for appeals cases.

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<sup>15</sup> This data file provided contained a listing of active and completed disability cases from May 2011 to February 2012.

**Table 9 – Phase I Findings**

Type	Description
Lack of Performance	<p>The CAO response to the OIG report (item #1 of Section I. <i>Prior Management Response</i>)<sup>18</sup> states, “the OHR staff will follow a step-by-step process to ensure the DRP is evaluating the current medical information when adjudicating a claim”. One of the steps in that process is the use of the Disability Retirement database. Per discussion with OHR staff, the disability retirement database was not being utilized and had been replaced with an excel spreadsheet created by a member of the OMS staff. This use of the excel spreadsheet differs from the procedures we tested against as documented in the July 2010 memo from the CAO to the OIG.</p> <p>The database was to have been used twice for each of the active cases (2*4=8) and once for each of the completed cases (1*4=4).</p>

#### Phase II Procedures

Procedures performed in Phase II involved detail testing a sample of payments. In developing our approach to the detailed testing for Phase II, we looked at both the controls identified as part of the Phase I testing and the procedures developed in connection with a prior audit completed in 2012 which focused on payments to retirees (Montgomery County Pension Benefit Payments - Employees' Retirement System; MCIA-13-1). We designed the testing to provide coverage over all payees receiving disability benefits payments from the ERS and the County's Disability Benefits Plan.

In addition to our detailed testing of disability benefit payments, we also performed an analysis on the population of ERS payees receiving disability payments to determine the number that should be subject to medical reevaluations and how many of those payees have not had reevaluations performed. ERS payees were selected for analysis as part of the follow up on implementation of recommendations from the OIG report, which look at compliance with County Code Section 33-43(g). Persons receiving payments from the DBP were excluded from detail analysis, since they are subjected to evaluation annually. Based on that analysis, we calculated the current value of the ERS disability payments for those payees that do not appear to have been properly reevaluated as required. For this process, we obtained an ERS retirement report from the Executive Director of MCERP, which indicated which retirement group each payee belonged. Based upon the specific plan requirements, the payee was due to be reevaluated either every 5 years or every 3 years; some payees were determined to be exempt from reevaluation based on a maximum age threshold, as determined by the plan. We also obtained an ERS payroll report from the Executive Director as of July 1, 2012 to determine who was required a reevaluation.

For individuals noted to be in a group of employees requiring a reevaluation, we calculated the FY 2013 monthly payment amount and then annualized that amount to obtain an estimate of total FY 2013 payments to employees who should have had a reevaluation.

### Phase II Sample Selection

For our detailed testing, we obtained from OHR Benefits the following listings:

- All current ERS, RSP and GRIP participants as of July 1, 2012 excluding payees with a retirement date prior to 1997<sup>16</sup>.

CB selected a random sample for Phase II from a population of 652<sup>17</sup> payees. We determined that a sample size of 105 ERS and 15 DBP payees was sufficient based on the objective of ascertaining whether internal controls over disability benefits had been implemented and were operating as designed. Of the 120 samples selected, 100 were tested and 20 were selected for replacements. A total of 6 replacements were used in testing. Our samples were chosen as follows:

**Table 10 – Phase II Sample Breakdown**

Category	Number of Samples Tested	Number of Samples Selected
ERS	92	105
DBP <sup>18</sup>	8	15
<b>Total</b>	<b>100</b>	<b>120</b>

### Phase II Detailed Testing

Our testing for Phase II followed the same methodology as Phase I using the attributes listed below:

**Table 11 – Phase II Disability Benefit Testing Attributes**

Attribute	Test Step
Attribute A <sup>19</sup>	<p>For each sample, obtain the relevant documents used in the retirement process:</p> <ul style="list-style-type: none"> <li>• Disability and retirement benefit applications</li> <li>• Disability counseling and OHR Retirement processing checklists</li> <li>• Chief Administrative Officer decision</li> </ul>

<sup>16</sup> Payees with retirement dates prior to 1997 were excluded from the sample population due to known limitations in obtaining payroll information for payment periods prior to 1997.

<sup>17</sup> Excluding any items previously tested (14 items) in the Pension audit we performed in 2012—see internal audit report MCIA-13-1.

<sup>18</sup> All of the DBP samples selected for testing were from the RSP Plan.

<sup>19</sup> This listing includes documents required to be used in the process and documents that provide relevant information needed for purposes performing benefit recalculations. See Appendix C for the document designation as required or relevant.

Attribute	Test Step
	<ul style="list-style-type: none"> <li>• Disability recommendation memos</li> <li>• Disability Review Panel decision report</li> <li>• Letter to employee notifying of disability decision and benefits</li> <li>• Employee record from PeopleSoft</li> <li>• Service Record</li> <li>• Unused sick leave balance</li> <li>• AETNA information report</li> <li>• Pension Administration System print out</li> <li>• AFE/FE calculation detail</li> <li>• Personnel Action Form from time of hire</li> <li>• Copy of birth certificate</li> </ul>
Attribute B	Verify that a signed and dated application for disability benefits was submitted within required timelines.
Attribute C	Verify that the applicable checklist (retirement/disability) to be completed by OHR Benefits has been properly completed.
Attribute D	Verify approval of benefits by: <ul style="list-style-type: none"> <li>a. Disability Review Panel</li> <li>b. Director of OHR</li> <li>c. County Attorney</li> <li>d. Chief Administrative Officer.</li> </ul>
Attribute E	Verify that evidence of medical re-examination or doctor's certificate is on file if a participant is within age requirements.
Attribute F	Recalculate final earnings relevant to the retirement plan, retirement type, and payment option and agree recalculation to OHR calculation. Follow up on any differences. <ul style="list-style-type: none"> <li>a. Recalculation of OHR calculation</li> <li>b. CB calculation of average final earnings</li> </ul>
	Recalculate beginning benefit payment relevant to the retirement plan, retirement type, and payment option and agree recalculation to OHR recalculation. Follow up on any differences. <ul style="list-style-type: none"> <li>a. Recalculation of MCERP calculation</li> <li>b. CB calculation of average final earnings.</li> </ul>
Attribute G	Review effective benefit commencement date and compare to date of distribution of first payment. <ul style="list-style-type: none"> <li>a. Recalculation of July 1, 2012 payment using OHR beginning benefit</li> <li>b. Recalculation of payment from date of retirement to July 1, 2012</li> </ul>

For attributes F and G, any calculation resulting in a variance greater than 1% between CB and OHR values was deemed to be an exception. Research on exceptions was performed with the assistance of staff and management of MCERP. MCERP staff provided additional documentation and interpretation of County Code and plan guidance.

## Results

Below is a summary of our findings:

**Table 12 - Summary of Exceptions from Phase II Testing**

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions per Attribute
<b>Attribute A:</b> Relevant documents used in the benefit process were included in case file(See Appendix C for details)	268	1598	17%
<b>Attribute B:</b> Signed and dated application for disability benefit was submitted	1	100	1%
<b>Attribute C:</b> Applicable checklist (retirement/disability) to be completed by OHR Benefits has been properly completed.( <i>effective after 1/1/11</i> )	3	7	43%
<b>Attribute D:</b> Verify approval of benefits by:	-	-	-
<b>a:</b> Disability Review Panel	18	100	18%
<b>b:</b> Director of OHR	15	100	15%
<b>c:</b> County Attorney	19	100	19%
<b>d</b> Chief Administrative Officer	7	100	7%
<b>Attribute E:</b> Evidence of medical re-examination or doctor's certificate is on file if a participant is within age requirements for post award re-examination as required by County code.	66	66	100%
<b>Attribute F</b>	-	-	-

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions per Attribute
<b>a:</b> Earnings relevant to the retirement plan, retirement type - Recalculation of OHR calculation	0	100	0%
<b>b:</b> Earnings relevant to the retirement plan, retirement type - CB calculation of average final earnings	6	100	6%
<b>c:</b> Beginning benefit payment relevant to the retirement plan, retirement type, and payment option - Recalculation of OHR calculation	0	100	0%
<b>d:</b> Beginning benefit payment relevant to the retirement plan, retirement type, and payment option - CB calculation of average final earnings	6	100	6%
<b>Attribute G</b>	-	-	-
<b>a:</b> Recalculation of July 1, 2012 payment using OHR beginning benefit	1	100	1%
<b>b:</b> Recalculation of payment from benefit commencement date to July 1, 2012 using CB beginning Benefit	6	100	6%
<b>Total Exceptions</b>	416	2771	15%

## **Observations**

### ***1. Incorrect Disability Benefit Calculations and Payments (Attributes F & G)***

We noted seven (7) instances in which disability benefits were incorrectly calculated by OHR. Two of the instances were corrected by MCERP during the performance of this audit. The errors for six of the instances were noted as exceptions for attributes F – b & d and G - b. The error for the seventh instance was noted as an exception for attribute G – b.

In reviewing disability benefit calculations and payments we found:

- Improper adjustment or non-adjustment of earnings (3 instances)
- Non-application of annual cost of living adjustment (1 instance)
- Incomplete earnings information (3 instances)
- Use of the incorrect benefit payment formula (2 instances)

One of the fiduciary duties of the Plan Administrator is to ensure disability benefits are accurately calculated and properly paid. Details of the exceptions are presented below for each of the affected annuitants. The benefit values provided are based upon our calculations and the documentation reviewed as part of this audit. Our stated cumulative under or over payments are estimated values.

- Payee # 24 - ERS Plan, Group H, Non-service Connected Disability
  - Our calculation of Final Earnings does not agree with the OHR Final Earnings used in the benefit calculation due to the non-application of the Phantom General Wage Adjustment (PGWA).
  - The PGWA was applied to earnings calculations for individuals who were employed at July 1, 2009 and applied for disability benefits before May 19, 2010.
  - Annuitant #24 was employed at July 1, 2009 and applied for disability benefits before May 19, 2010, which met the criteria for PGWA to be added to Final Earnings for the disability benefit calculation. The annuitant's final earnings should have been increased by 4.5%.
  - The error in the final earnings calculation impacted the beginning monthly benefit payment and the monthly benefit payment on July 1, 2012<sup>20</sup>.

	Final Earnings	Beginning Benefit	July 1, 2012 Benefit Payment
<b>Cherry Bekaert</b>	\$61,334.19	\$1,703.56	\$1,789.07
<b>OHR</b>	\$58,693.00	\$1,629.15	\$1,710.92
<b>Difference</b>	\$2,647.19	\$74.41	\$78.15

- The annuitant has been underpaid disability benefits for 2 years and 8 months as of June 30, 2013 for a cumulative estimated total of \$2,419.78 – see calculation below.

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<sup>20</sup> Since the monthly payment for the full fiscal year 2013 is established on July 1, 2012 all calculations were thru to June 30, 2013.



Fiscal Years	Months	Monthly Underpayment	Total Underpayment
<b>FY 2011</b>	8	\$73.36	\$586.86
<b>FY 2012</b>	12	\$75.70	\$908.45
<b>FY 2013</b>	12	\$77.04	\$924.47

According to MCERP the benefit payment for this annuitant was corrected in July 2013 and the retiree was paid the total underpayment

- Payee # 31 - ERS Plan, Group F, Service Connected Disability
  - Our calculation of Final Earnings does not agree with the OHR Final Earnings used in the benefit calculation due to the improper application of the Phantom General Wage Adjustment (PGWA). Our calculation of the beginning benefit and the July 1, 2012 benefit payment did not agree with the OHR calculation due to the use of the incorrect benefit formula.
  - The PGWA was applied to earnings calculations for individuals who were employed at July 1, 2009 and applied for disability benefits before May 19, 2010.
  - Annuitant #31 was employed at July 1, 2009 but applied for disability benefits after May 19, 2010, which did not meet the criteria for the PGWA to be added to Final Earnings for disability benefit calculation. The annuitant's final earnings were improperly increased by 4.25%.
  - In June 2002 a Code change to the normal benefit formula for ERS plan participants in group F was approved. That changed the formula to: the greater of Average Final Earnings or Final Earnings in the normal benefit calculation, rather than just Average Final Earnings in the formula.
  - It appears that OHR improperly applied this Code change to the minimum benefit calculation and replaced Final Earnings with Average Final Earnings. The annuitant's benefit was originally calculated using 66 2/3% of Average Final Earnings when it should have been calculated using 66 2/3% of Final Earnings.
  - The error in the final earnings calculation impacted the beginning benefit payment and the benefit payment on July 1, 2012.

	Final Earnings /Average Final Earnings	Beginning Benefit	July 1, 2012 Benefit Payment
<b>Cherry Bekaert</b>	\$88,031.32	\$5,220.19	\$5,429.09
<b>OHR</b>	\$89,308.68	\$5,291.15	\$5,502.90

	Final Earnings /Average Final Earnings	Beginning Benefit	July 1, 2012 Benefit Payment
<b>Difference</b>	(\$1,277.36)	(\$70.96)	(\$73.81)

- The annuitant has been overpaid disability benefits for 1 year and 9 months, for a cumulative estimated total of \$1,532.83 - see calculation below.

Fiscal Years	Months	Monthly Overpayment	Total Overpayment
<b>Prorated 1<sup>st</sup> month</b>	3 days	\$2.28	\$6.87
<b>FY 2011</b>	3	\$70.96	\$212.88
<b>FY 2012</b>	12	\$72.52	\$870.27
<b>FY 2013</b>	6	\$73.80	\$442.81

According to MCERP, the benefit payment for this annuitant was corrected by MCERP in December 2012. The annuitant started receiving the proper payment on January 1, 2013. Per MCERP the payee is paying the amount overpaid to them back to the ERS in monthly installments.

- Payee # 88 - ERS Plan, Group F, Service Connected Disability
  - Our recalculation of Final Earnings does not agree with the OHR Final Earnings used in the benefit calculation due to the improper application of the Phantom General Wage Adjustment (PGWA). Our recalculation of the beginning benefit and the July 1, 2012 benefit payment did not agree with the OHR calculation due to the use of the incorrect benefit formula.
  - The PGWA was applied to earnings calculations for individuals who were employed at July 1, 2009 and applied for disability benefits before May 19, 2010.
  - Annuitant #88 was employed at July 1, 2009 but applied for disability benefits after May 19, 2010, which did not meet the criteria for the PGWA to be added to Final Earnings for disability benefit calculation. The annuitant's final earnings were improperly increased by 4.25%.
  - In June 2002 a Code change to the normal benefit formula for ERS plan participants in group F was approved. That changed the formula to: the greater of Average Final Earnings or Final Earnings in the normal benefit calculation, rather than just Average Final Earnings in the formula.

- It appears that OHR improperly applied this Code change to the minimum benefit calculation and replaced Final Earnings with Average Final Earnings. The annuitant's benefit was originally calculated using 66 2/3% of Average Final Earnings when it should have been calculated using 66 2/3% of Final Earnings.
- The error in the final earnings calculation impacted the beginning benefit payment and the benefit payment on July 1, 2012.

	Final Earnings Final Earnings / Average Final Earnings	Beginning Benefit	July 1, 2012 Benefit Payment
<b>Cherry Bekaert</b>	\$86,774.48	\$4,821.05	\$4,885.84
<b>OHR</b>	\$89,952.14	\$4,997.59	\$5,064.76
<b>Difference</b>	(\$3,177.66)	(\$76.54)	(\$178.92)

- The annuitant has been overpaid disability benefits for 10.5 months, for a cumulative estimated total of \$1,950.20 as presented below.

Fiscal Years	Months	Monthly Overpayment	Total Overpayment
<b>Prorated 1<sup>st</sup> month</b>	28 days	\$6.09	\$170.52
<b>FY 2012</b>	4	\$176.61	\$706.18
<b>FY 2013</b>	6	\$178.92	\$1,073.50

According to MCERP, the benefit payment for this annuitant was corrected by MCERP in December 2012 and the payee is repaying the overpayment in monthly installments.

- Payee # 86 - ERS Plan, Group H, Non Service Connected Disability
  - Our recalculation of the July 1, 2012 payment does not agree to what OHR was paying the annuitant as of July 1, 2012 due to OHR improperly excluding the 2.20% COLA for 2012 from the monthly payment calculation.
  - While the calculation of the retroactive benefit payment covering March 2011 through February of 2012 correctly included the FY2012 COLA for payments due from July 2011 to February 2012, the calculation of the actual monthly payment amount starting March 1, 2012 did not include the FY2012 COLA applied on payments starting on July 1, 2011. The error in the calculation impacted the benefit payments starting in March 2012.

	July 1, 2011 Benefit Payment	July 1, 2012 Benefit Payment
<b>Cherry Bekaert</b>	\$2,209.15	\$2,247.91
<b>OHR</b>	\$2,161.59	\$2,199.70
<b>Difference</b>	\$47.55	\$48.21

- The annuitant has been underpaid disability benefits for 1 year and 4 months as of June 30, 2013 for cumulative estimated total of \$ 770.90.

Fiscal Years	Months	Monthly Underpayment	Total Underpayment
<b>FY 2012</b>	4	\$47.55	\$190.22
<b>FY 2013</b>	12	\$48.39	\$580.67

According to MCERP, the benefit payment for this payee was corrected by MCERP in July 2013 and the amount underpaid was paid.

- Payee # 91 - DBP, Service Connected Disability
  - Our calculation of Average Final Earnings does not agree with the OHR calculation of Average Final Earnings used in the benefit calculation due to OHR's exclusion of earnings payments that were made to the payee via paper checks as opposed to direct deposit. At the time the Average Final Earnings Calculation was made, OHR was unaware of the paper checks that had been issued to the payee.
  - The error in the average final earnings calculation impacted the monthly benefit payment.

	Average Final Earnings	Monthly Benefit
<b>Cherry Bekaert</b>	\$33,588.50	\$1,866.12
<b>OHR</b>	\$32,997.97	\$1,833.26
<b>Difference</b>	\$590.53	\$32.86

- The payee has been underpaid disability benefits for 9 years and 9 months as of June 30, 2013 for cumulative estimated total of \$3,854.46.

<b>Fiscal Years</b>	<b>Months</b>	<b>Monthly Underpayment</b>	<b>Total Underpayment</b>
<b>FY 2004<sup>21</sup></b>	9	\$32.86	\$305.58
<b>FY 2005</b>	12	\$32.86	\$394.32
<b>FY 2006</b>	12	\$32.86	\$394.32
<b>FY 2007</b>	12	\$32.86	\$394.32
<b>FY 2008</b>	12	\$32.86	\$394.32
<b>FY 2009</b>	12	\$32.86	\$394.32
<b>FY 2010</b>	12	\$32.86	\$394.32
<b>FY 2011</b>	12	\$32.86	\$394.32
<b>FY 2012</b>	12	\$32.86	\$394.32
<b>FY 2013</b>	12	\$32.86	\$394.32

Per MCERP the underpayment amount due, will be totally offset by monies the payee owed the Disability Benefits Plan as a result of MCERP's income verification audit. The payee was receiving Social Security benefits that were not reported and if they had been would have resulted in his benefit being reduced or discontinued.

- Payee # 97 - DBP, Non-service Connected Disability,
  - Our calculation of Average Final Earnings does not agree with the OHR calculation of Average Final Earnings used in the benefit calculation due to OHR's exclusion of earnings payments that were made to the payee via paper checks as opposed to direct deposit. At the time the Average Final Earnings Calculation was made, OHR was unaware of the paper checks that had been issued to the payee.
  - The error in the average final earnings calculation impacted the monthly benefit payment.

	<b>Average Final Earnings</b>	<b>Monthly Benefit</b>
<b>Cherry Bekaert</b>	\$29,684.66	\$742.12

<sup>21</sup> The payees first benefit payment included a proration of 10 days which equal an additional \$9.84 of underpayment for FY 2004.

	Average Final Earnings	Monthly Benefit
<b>OHR</b>	\$28,775.57	\$719.39
<b>Difference</b>	\$909.09	\$22.73

- The payee has been underpaid disability benefits for 8 years and 6 months as of June 30, 2013 for cumulative estimated total of \$2,322.86.

Fiscal Years	Months	Monthly Underpayment	Total Underpayment
<b>FY 2005<sup>22</sup></b>	6	\$22.73	\$140.78
<b>FY 2006</b>	12	\$22.73	\$272.76
<b>FY 2007</b>	12	\$22.73	\$272.76
<b>FY 2008</b>	12	\$22.73	\$272.76
<b>FY 2009</b>	12	\$22.73	\$272.76
<b>FY 2010</b>	12	\$22.73	\$272.76
<b>FY 2011</b>	12	\$22.73	\$272.76
<b>FY 2012</b>	12	\$22.73	\$272.76
<b>FY 2013</b>	12	\$22.73	\$272.76

Per MCERP, it agrees with the underpayment amount and has adjusted the benefit amount. However, the payee's benefit was stopped in May 2013 due to the lack of a response to MCERP's income verification process. Once the required information is provided by the payee, and if a monthly benefit is still required to be paid, MCERP will process the underpayment.

- Payee # 98 - DBP, Non-service Connected Disability, Our calculation of Average Final Earnings does not agree with the OHR calculation of Average Final Earnings used in the benefit calculation due to OHR's exclusion of earnings payments that were made to the payee via paper checks as opposed to direct deposit. At the time the Average Final Earnings Calculation was made, OHR was unaware of the paper checks that had been issued to the payee.

<sup>22</sup> The payee's first benefit payment included a proration of 6 days which equal an additional \$4.40 of underpayment for FY 2005.

- The error in the average final earnings calculation impacted the monthly benefit payment.

	Average Final Earnings	Monthly Benefit
<b>Cherry Bekaert</b>	\$52,188.30	\$1, 302.55
<b>OHR/MCERP</b>	\$51,193.00	\$1,279.83
<b>Difference</b>	\$ 995.30	\$ 22.72

- The payee has been underpaid disability benefits for 2 years and 7 months as of June 30, 2013 for cumulative estimated total of \$704.32.

Fiscal Years	Months	Monthly Underpayment	Total Underpayment
<b>FY 2011<sup>23</sup></b>	7	\$ 24.88	\$ 179.96
<b>FY 2012</b>	12	\$ 24.88	\$ 298.56
<b>FY 2013</b>	12	\$ 24.88	\$ 298.56

According to MCERP the payee is currently not receiving a monthly payment as her benefit is 100% offset by the payment she is receiving from Social Security.

## **2. Weakness in retention of support for Retroactive and Adjustment Disability Benefit Payments**

In performing either the recalculation of OHR calculations or our own calculations of beginning benefit and July 1, 2012 payments (Attribute F(c & d) and Attribute G) , we found an insufficient level of documentation retained in individual case files to support retroactive and adjustment disability benefit payments. Letters to the payee stating the amounts of the retroactive or adjustment payment were consistently found in the case files; however documentation of the actual calculation were not always found. Our ability to validate the accuracy of the disability benefit payments is limited due to the lack key calculation details such as the length of retroactive or adjustment period and COLA percentages. The lack of calculation details limited our ability to test retroactive and adjustment disability benefit

<sup>23</sup> The payees first benefit payment included a proration of 7 days which equal an additional \$5.80 of underpayment for FY 2011.

payments for three annuitants (see table below). One of the fiduciary duties of the Plan Administrator is to ensure disability benefits are accurately calculated and properly paid.

	<b>Retroactive and/ or Adjustment Payment</b>	<b>Payment Value</b>
Payee # 10	Change in benefit Formula	Unknown
Payee # 11	Change in benefit Formula	Unknown
Payee # 16	Change in benefit Formula	Unknown

According to MCERP, it has a formal archival plan and retention policy in place that ensures records are properly stored and retrievable. MCERP created an Imaged File for Retirement. MCERP's policy requires the retirement analyst handling any facet of Plan administration to image a document on the day action is taken, or shortly thereafter. All applicants applying for disability benefits are required to be provided copies of their current accrued benefit, as well as the various disability benefit options available under the ERS or DBP. These documents are scanned and stored in the Retirement Imaged File by applicant. For instance, if a person applies for retirement, the retirement analyst will image the application, along with the benefit calculations provided to the applicant immediately. Consequently, MCERP believes that it has the controls in place to address the issues experienced by OHR.

### **3. *Weakness in Documentation Retention in Individual Case Files***

We found inconsistencies in the level and completeness of documentation retained in individual case files (Attribute A) by OHR. The absence of the following key documents, which are to be retained to provide evidence of compliance with policies and procedures, was noted:

- Documents supporting the approval of disability benefits were not retained in individual imaged files. Per MCERP, OHR documentation was converted from hard copies to imaged files by the Records Center. It is our understanding that OHR did not validate that documentation converted from paper was imaged. Documentation not contained in the imaged file was not obtainable for testing. As a result, we were unable to verify approval by the various management levels. The approval level and number of instances that documents were not available to be reviewed are presented below:
  - Disability Review Panel (18)
  - Director of Office of Human Resource memo (15)
  - County Attorney agreement with approval (19)
  - Chief Administrative Officer Memo (7)
- Disability Benefits applications to support an employee's intent to seek disability benefits were not retained. (3)
- Checklist – the Disability Counseling Checklist used to document that all necessary information was provided to and obtained from the employee seeking disability benefits was not retained in file. (4)



- Communication to the employee regarding notice of the disability decision and to confirm the intent of the County to provide the employee disability benefits (6)
- Communication to 3<sup>rd</sup> party payment provider (Aetna) to inform them of amounts to be paid to annuitant (42)

We also noted the absence or lack of completion of the following documentation that, while not required to be retained, was the source of important information needed to perform recalculations of benefit payments:

- Print out of Employee PeopleSoft record used by Cherry Bekaert to confirm retirement group (13)
- Record of employee service and unused sick leave to confirm years of service and sick leave hours (53)
- Personnel Action Form to confirm date of hire (19)
- Copy of birth certificate to confirm age (22)

While OHR followed the County's formal record retention policy regarding the length of time to retain documents, there was no formal retention plan that detailed a base line of key documents to be retained in retiree files based upon effective dates of plan requirements or employee disability award date at the time our sample was approved to receive benefits. Incomplete or missing documentation impacts an in-house or independent reviewer's ability to recalculate and/or verify the accuracy of disability benefits awarded. We had to make assumptions about files and make additional inquiries in order to perform our audit.

According to MCERP, and as described in more detail under Observation 2 above, it has a formal archival plan and retention policy in place that ensures records are properly stored and retrievable. Consequently, MCERP believes that it has the controls in place to address the issues experienced by OHR.

#### **4. Medical Re-examination Performance**

Per County Code, Sec. 33-43 (g), ERS Disability retirees are subject to annual medical re-examinations for the first five years of retirement and every three years thereafter until reaching age of exemption. Of the 100 annuitants selected for testing 66 were subject to the re-examination requirements. None of the 66 disability case files had evidence of medical re-examinations. Per OHR the performance of re-examinations had been temporarily stopped from the beginning of fiscal year 2011 to April 2012 due to limitation of staff availability to assemble and request the necessary records for review. In addition, the listing of individuals subject to review had to be updated to remove deceased annuitant's and annuitants who are 55 or 60 years of age and are no longer subject to the requirement. For calendar 2012, OHR had developed a plan to restart the performance of the re-examination with the goal of performing 10

per month. As of June 2012 progress had been made in selecting retirees to be re-examined, however no re-examinations had been performed due to department resource limitations.

We performed an analysis of all individuals receiving disability benefits under the ERS plan as of July 1, 2012; to identify those who, based upon retirement date and age, would be subject to the medical re-examination requirements during FY2013. We classified those identified into two categories, Type 1 – within 5 years of retirement and subject to re-examinations annually and Type 2 – beyond 5 years of retirement and subject to re-examinations every three years. We then annualized the monthly benefit paid to individuals in each category to arrive at the total value of disability benefits to be paid during FY2013 that should be under review based upon medical re-examinations. We found that 401 or 36% of the ERS disability retirees and \$16.6 million or 36% of ERS disability benefits are subject to medical re-examinations during FY2013. The following table details our analysis results.

	Retiree who met exemption threshold prior to or during FY13	Type 1: First 5 Years	Type 2: Every 3 years	Totals
<b>Retirees</b>	704	126	275	1105
<b>Annualized Benefit Payments</b>	\$29,635,991	\$6,971,239	\$9,667,898	\$46,275,128

By not complying with the re-examination program requirements, the Plan Administrator may have limited his ability to cease or reduce payments to payees who may no longer meet the requirements to qualify for disability benefits.

According to MCERP, it began the re-certification of ERS disabilities shortly after the organization was created in July 2012. The re-certification process began by MCERP when they contracted with two physicians in September 2013 to provide the initial review of each payee. The re-certifying physician reviews all medical records and determines whether the payee qualifies for continuing benefits or whether the Disability Review Panel should review the payee's files. As of June 30, 2013, 103 payees have been reviewed and re-certified. MCERP sends requests to 33 payees each month. As a result, MCERP believes that it has the controls in place to address the issues experienced by OHR.

## **Other Matters**

### ***Disability Pension Payments Adjustment or Cessation***

Per County Code section 33-43(j)(2) the County can adjust or cease payment of disability benefit payments related to additional income received as disability benefits or earnings. According to OHR officials, as of January 2012, no formal procedures had been developed or implemented to perform a review of benefits being paid to determine if any adjustment of benefit payments may be warranted. The non-performance of additional benefit and income reviews may limit the Plan Administrator from exercising its authority to properly reduce or cease benefit payments.

MCERP has indicated that it has established an annual income verification program in compliance with the County Code. Subsequent to our discussion in January 2012, MCERP has established procedures and as of January 1, 2013 performed its first annual review of benefits being paid from the County's Disability Benefits Plan and did identify individuals for which the County paid disability benefits that should be adjusted or stopped.

## **Conclusions**

OHR had generally designed internal controls intended to ensure compliance with Montgomery County Regulations, Employees' Retirement System and the County's Disability Benefits Plan requirements to determine benefit payments. We found that, for the most part, controls were operating as intended. However, our audit disclosed that weaknesses existed and controls could have been further strengthened. Since completing our field work MCERP's Director has advised us that MCERP either had in place or have subsequently established controls or processes to address the OHR weaknesses that were identified during the audit. In addition, MCERP communicated that it has taken corrective action regarding the calculation errors and have made restitution as noted above. While we have not evaluated MCERP's actions they appear to address the OHR control weaknesses we observed. Therefore, we are not making any recommendations in this report.

## **Comments and MCIA Evaluation**

We provided OHR and MCERP, with a draft of this report for review and comment on October 4, 2013. MCERP responded on October 11, 2013 and OHR responded on October 15, 2013.

MCERP's response was provided in the form of proposed edits to the report and noted a need to clarify that restitution for any over or underpayments must be made between the disabled employee and the respective benefit plan and not the County. We made that clarification. In addition, MCERP management indicated agreement with all benefit payment exceptions noted in the report. OHR's memorandum response can be found in Appendix D. OHR made

reference to comments it previously provided us, including what it thought was a judgmental tone to the report, based on its review of an earlier draft of the report. We considered each of the comments presented by OHR at that time and made changes as appropriate to the final report. For the most part, our findings related to disability payment errors from the prior version of the report remain and have subsequently been verified by MCERP.

With respect to the tone of the report, we have attempted to present a fair and balanced view of OHR and our audit results. We have recognized the efforts of OHR and stated that it had generally designed and implemented internal controls to ensure disability benefit payments from ERS and the Montgomery County Disability Benefits Plan (DBP) are in accordance with applicable Montgomery County regulations. However, we did identify audit exceptions which we continue to believe accurately reflect the results of our work and the condition of OHR's internal controls over the transactions we tested.

OHR also stated in its earlier comments to us that prior to issuing a preliminary draft of the report we did not meet with any current OHR personnel that were involved in previously administering the disability benefit plans. Although this is correct, we did meet with former OHR personnel that now are assigned to MCERP and we did subsequently offer to meet with OHR regarding the draft report. OHR did not avail itself of our offer.

## Appendix A: Summary of ERS and DBP Programs

**Table A-1 –Program Plans<sup>24</sup>**

Plan	Description
Optional Non-Integrated	<ul style="list-style-type: none"> <li>Retirement benefits independent of the social security normal retirement date.</li> <li>Employees enrolled before July 1, 1978 are members of this plan but have the option of transferring to the Optional Integrated Plan.</li> </ul>
Optional Integrated	<ul style="list-style-type: none"> <li>Full retirement benefits until the member is eligible for normal social security retirement benefits and supplemental benefits thereafter.</li> <li>Employees enrolled before July 1, 1978 who are members of the Optional Non-Integrated plan have the option of transferring to the Optional Integrated Plan.</li> </ul>
Mandatory Integrated	<ul style="list-style-type: none"> <li>Full retirement benefits until the member is eligible for normal social security retirement benefits and supplemental benefits thereafter.</li> <li>Employees enrolled on or after July 1, 1978 are members of this plan.</li> </ul>

**Table A-2 – ERS Membership Groups**

Group	Group Code	Plan	Enrollment
<b>Non-public safety employees not in bargaining unit positions or employees of outside agencies.</b>	A	Optional Non-Integrated	Hired before July 1, 1978
	AZ	Optional Integrated	Hired before July 1, 1978
	AK	Mandatory Integrated	Hired on or after July 1, 1978
<b>Sheriff's Deputies and Public Safety Correctional Staff</b>	E	Optional Non-Integrated	Hired before July 1, 1978
	EZ	Optional Integrated	Hired before July 1,

<sup>24</sup> Source: July 2010 Montgomery County Employees' Retirement System Summary Descriptions

Group	Group Code	Plan	Enrollment
			1978
	EK	Mandatory Integrated	Hired on or after July 1, 1978
<b>Sworn Police Officers</b>	F	Optional Non-Integrated	Hired before July 1, 1978
	FZ	Optional Integrated	Hired before July 1, 1978
	FK	Mandatory Integrated	Hired on or after July 1, 1978
<b>Paid Fire Fighters, Paid Fire Officers, and Paid Rescue Service Personnel</b>	G	Optional Non-Integrated	Hired before July 1, 1978
	GZ	Optional Integrated	Hired before July 1, 1978
	GK	Mandatory Integrated	Hired on or after July 1, 1978
<b>Non-public safety employees in bargaining unit positions.</b>	H	Optional Non-Integrated	Hired before July 1, 1978
	HZ	Optional Integrated	Hired before July 1, 1978
	HK	Mandatory Integrated	Hired on or after July 1, 1978

Note: Two additional groups – B and D – are not represented in the above table. These two groups stopped accepting new members many years ago. They have no active members and have very few remaining annuitants. Group B includes any correctional officer, fire prevention officer, or deputy sheriff appointed on or before June 30, 1978 who has not elected to transfer to another membership group. Group D includes any full-time police officer appointed on or before August 15, 1965 who has been continuously employed as a police officer and has not elected to transfer to another membership group.

Each retirement group is classified based on the plan its members are participating in. A single letter designates the optional non-integrated plan as the ERS was originally set up. If a “Z” is added, it designates the optional integrated plan that members could transfer to in 1978. If a “K” is added, it designates the mandatory integrated plan that became required for new hires in 1978.

**Table A-3 – RSP/GRIP Membership Groups**

Group	Group Code	Enrollment Date
<b>RSP</b>	RN, RM, RC, RP	Hired on or after October 1, 1994
<b>GRIP</b>	CN, CM, CC, CP, CZ	

**Table A-4 – Pension Program IT Systems**

Old System	New System
<b>Human Resources Management System (HRMS)- Legacy human resources system.</b>	Oracle – The County’s new ERP system that replaced HRMS in 2011
<b>Human Resources Benefits (HRB) - Legacy pension system</b>	PeopleSoft – The County’s new pension system that replaced HRB.
	Imaging System – This system contains scanned copies of all employee personnel records

**Table A-5 – Disability Eligibility**

Retirement Type	Group	Credited Service	Age Eligible to Retire
<b>Discontinued Service</b>	A, E, F, and H	At least 10 years of continuous service	Same as early retirement
	G	At least 10 years of continuous service	Same as normal retirement
<b>Non-service connected</b>	All groups	At least 5 years	Any age
<b>Service connected</b>	All groups	Any service	Any age
<b>RSP/GRIP Disability Benefits Plan</b>	R or C	Any service	Any age

**Table A-6 – Average Final Earnings**

Employee Status	Plan	Calculation
<b>Full-time</b>	Optional non-integrated	Highest consecutive 12 months of earnings before retirement, excluding overtime
<b>Full-time</b>	Optional integrated	Highest consecutive 12 months of earnings before retirement, excluding overtime
<b>Full-time</b>	Mandatory Integrated	Average of highest consecutive 36 months of earnings before retirement, excluding overtime.
<b>Any status</b>	RSP/GRIP	Average annual pay earned for the 18 consecutive-month period for which you earned the most money.

**Table A-7– ERS Program Payment Options**

Forms of Benefit	Description
<b>Modified Cash Refund Annuity (MCR)</b>	Monthly benefit for the retiree's lifetime. If the retiree dies before receiving benefits equal to all of his or her member contributions plus interest, the remaining amount is paid to the beneficiary in a lump sum. This is the normal form of benefit for members of the mandatory integrated plan unless elected otherwise.
<b>10 Year Certain &amp; Continuous (10 Yr C&amp;C)</b>	Monthly benefit for the retiree's lifetime. If the retiree dies before receiving 120 monthly payments, the beneficiary will receive monthly payments for the remainder of the 10 year period. This is the normal form of benefit for members of the optional integrated and optional non-integrated plans unless elected otherwise.



Forms of Benefit	Description
<b>Social Security Adjustment Option (SSAO)</b>	Option that is combined with either MCR or 10 Yr C&C. The retiree receives a larger initial monthly benefit until age 62 or 65 and a smaller monthly payment thereafter. The benefit is actuarially equivalent to the retiree's normal benefit.
<b>Joint and Survivor Option (J&amp;S)</b>	Option that provides a monthly benefit for the retiree's lifetime. At the retiree's death, the surviving joint annuitant will receive a percentage of the benefit for the rest of his or her life. The larger the percentage chosen for the surviving joint annuitant, the less the amount paid to the retiree during his or her lifetime. Any percentage over 10% can be chosen.
<b>Joint and Survivor Annuity Pop-Up Option</b>	Variation of J&S. If the retiree and the joint annuitant divorce or the joint annuitant dies before the retiree, the monthly payment will "pop up" to the amount it would have been if the retiree had selected MCR.
<b>Social Security Adjustment Option Combined with Joint &amp; Survivor Annuity Option</b>	Variation of J&S. The retiree receives a larger monthly benefit under the J&S Option until normal Social Security retirement benefits begin and a smaller monthly payment thereafter.
<b>Social Security Adjustment Option Combined with Joint &amp; Survivor Annuity Pop-Up Option</b>	Variation of J&S Pop-Up. The retiree receives a larger monthly benefit under the J&S Option until age 62 or 65 and a smaller monthly payment thereafter. If the retiree and the joint annuitant divorce or the joint annuitant dies before the retiree, the monthly payment will "pop up" to the amount it would have been if the retiree had selected MCR.

## Appendix B: Phase I Results

**Table B-1 – Attributes Tested for Active Cases**

Attribute	Description
<b>1</b>	Determine if applicant attended one on one counseling session
<b>2a</b>	Did OMS receive Disability Retirement Application
<b>2b</b>	Did OMS receive 3 <sup>rd</sup> party and medical release
<b>3</b>	Determine if letters were sent to applicant requesting medical records
<b>3a</b>	If needed, when was the 2 <sup>nd</sup> notice sent to the applicant
<b>3b</b>	If needed, when was the 3 <sup>rd</sup> notice sent to the applicant
<b>4a</b>	Did applicant provide requested personal medical records
<b>4a1</b>	Were they received within 30 days
<b>4a2</b>	Were they for 5 years, if not, note the time frame provided
<b>4b</b>	If applicable, were the Worker's Compensation (WC) records obtained
<b>4c</b>	If applicable, were Fire and Rescue Occupational Medical Service (FROMS) records obtained
<b>5</b>	Determine if OMS staff entered the application details into the Disability Retirement database
<b>5a</b>	Determine if OMS Staff has updated Disability Retirement applicant status in Occupational Health Manger (OHM) software
<b>6</b>	Determine if case has been submitted to the DRP for review
<b>6a</b>	Determine what information was provided to the DRP
<b>6b</b>	Determine if the DRP requested an Independent Medical Examination (IME)
<b>6c</b>	Determine if the DRPs recommendation was made within 30 days of meeting or 30 days after receipt of the IME report
<b>6d</b>	Did the DRP conduct a follow up meeting to review all information with additional input of IME and any updated WC or other medical information

Attribute	Description
<b>7</b>	Determine if the DRP made a decision and issued a report of recommendation to the CAO

**Table B-2 – Attributes Tested for Completed Cases and Active Cases (if applicable)**

Attribute	Description
<b>1</b>	Determine if DRP based their recommendation solely on the guidelines provided within the County Code
<b>2</b>	Determine if the final report was reviewed by all four members of the DRP
<b>3</b>	Determine if OMS manager reviewed Disability Decision Report and prepared memo to the County Attorney (OCA) for review
<b>4</b>	Determine if OCA submitted County Attorney Memo to OMS
<b>5</b>	Determine if OHR Director signed Recommendation Memo and forwarded it to the CAO for approval
<b>6</b>	Determine if CAO rendered decision and sent back to OHR for processing
<b>7</b>	Determine if OMS received Disability Decision Report, County Attorney Memo, OHR Director Recommendation Memo and signed Decision Memo from CAO
<b>8</b>	Verify if OMS entered the decision into OHM and Disability Retirement database
<b>9</b>	Conclude on the adequacy of Disability Retirement process and procedures

**Table B-3 – Attributes Tested for Appeals Cases**

Attribute	Description
<b>1</b>	Determine if applicant has submitted a letter of appeal
<b>2</b>	Determine if OMS was notified of appeal
<b>3</b>	Determine how OHR assigned the appeal to lead Arbitrator
<b>4</b>	Determine if assignment of members to Disability Arbitration Board (DAB) by the OHR Department were in accordance with department

Attribute	Description
	practices
<b>5</b>	Determine if DAB has notified all parties of decision via memo
<b>6</b>	Determine if memo was received and entered into OHM and Disability Retirement database by OMS
<b>7</b>	If DAB decision resulted in employee being awarded disability retirement, determine if OHR Benefits has met with applicant to discuss retirement process and processed change in employee status
<b>8</b>	Verify if OMS entered the decision into OHM and Disability Retirement database

**Table B-4 – Summary of Exceptions from Phase I Active Cases Testing**

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
<b>Attribute 1</b>	0	4	0%
<b>Attribute 2a</b>	0	4	0%
<b>Attribute 2b</b>	0	4	0%
<b>Attribute 3</b>	0	4	0%
<b>Attribute 3a</b>	0	4	0%
<b>Attribute 3b</b>	0	4	0%
<b>Attribute 4a</b>	0	4	0%
<b>Attribute 4a1</b>	0	4	0%
<b>Attribute 4a2</b>	0	4	0%
<b>Attribute 4b</b>	0	4	0%
<b>Attribute 4c</b>	0	4	0%
<b>Attribute 5</b>	4	4	100%
<b>Attribute 5a</b>	4	4	100%

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
<b>Attribute 6</b>	0	4	0%
<b>Attribute 6a</b>	0	4	0%
<b>Attribute 6b</b>	0	4	0%
<b>Attribute 6c</b>	0	4	0%
<b>Attribute 6d</b>	0	4	0%
<b>Attribute 7</b>	N/A	4	0%
Total Exceptions	8		

**Table B-5 – Summary of Exceptions from Phase I Completed Cases Testing**

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
<b>Attribute 1</b>	0	4	0%
<b>Attribute 2</b>	0	4	0%
<b>Attribute 3</b>	0	4	0%
<b>Attribute 4</b>	0	4	0%
<b>Attribute 5</b>	0	4	0%
<b>Attribute 6</b>	0	4	0%
<b>Attribute 7</b>	0	4	0%
<b>Attribute 8</b>	4	4	100%
Total Exceptions	4		

**Table B-6 – Summary of Exceptions from Phase I Appealed Cases Testing**

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
<b>Attribute 1</b>	0	4	0%
<b>Attribute 2</b>	0	4	0%
<b>Attribute 3</b>	0	4	0%
<b>Attribute 4</b>	0	4	0%
<b>Attribute 5</b>	0	4	0%
<b>Attribute 6</b>	0	4	0%
<b>Attribute 7</b>	0	4	0%
Total Exceptions	0		

**Table B-7 – Phase I Findings**

Type	Description
Lack of Performance	The CAO response to the OIG report (item #7 of Section II. <i>Implementation of Bill 37-08</i> ) <sup>25</sup> indicated that OHR would begin reviewing the status of individuals who retired after August 19, 2009 to determine whether or not they continue to be disabled however this process was never implemented. Per discussion with OHR staff, the evaluations are not being performed.
Lack of Performance	The CAO response to the OIG report (item #1 of Section I. <i>Prior Management Response</i> ) <sup>18</sup> states, “the OHR staff will follow a step-by-step process to ensure the DRP is evaluating the current medical information when adjudicating a claim”. One of the steps in that process is the use of the Disability Retirement database. Per discussion with OHR staff, the disability retirement database isn’t being utilized and has been replaced with an excel spreadsheet created by a member of the OMS staff. This use of the excel spreadsheet differs from the procedures we tested against as documented in the July 2010 memo from the CAO to the OIG.
Lack of Controls	Per discussion with OHR staff, CBH noted there are currently no control procedures implemented to identify a retiree not receiving disability benefits from another employer/source for the same injury. The CAO response to the OIG report (item #6 of Section II. <i>Prior Management Response</i> ) <sup>18</sup> states, “The County must reduce its

<sup>25</sup> This is referring to the OIG report, *Montgomery County Government Disability Retirement Program*, published September 2008 as well as the CAO response on July 26, 2010.

Type	Description
	disability payment by the amount of disability payments made by another employer for the same injury, except for Social Security disability benefits.”

## Appendix C: Phase II Results

Results for Attribute A: For each sample, obtain the relevant documents used in the retirement process

Document	Document Description Required (RQ) / Relevant (RV)	Required	Received	Exceptions	%Exception
A	Application for Retirement Benefits(RQ)	100	100	0	0%
B	Application for Disability Benefits(RQ)	100	97	3	3%
C	Disability Counseling Checklist(RQ)	7	4	3	42%
D	Chief Administrative Officer Decision(RQ)	96	90	7	7%
E	Disability Recommendation Memo from County Attorney(RQ)	96	77	19	19%
E1	Disability Recommendation Memo from Director of OHR(RQ)	96	85	15	15%
F	Disability Review Panel Disability Decision Report(RQ)	96	78	18	18%
G	Letter to Employee Notifying of Disability Decision(RQ)	100	94	6	6%
H	ERS / OHR Retirement Processing Checklist(RQ)	7	7	0	0%
I	Employee record from PeopleSoft and HRB showing demographic	93	80	13	13%



Document	Document Description Required (RQ) / Relevant (RV)	Required	Received	Exceptions	%Exception
	information(RV)				
J	Service Record(RV)	100	47	53	53%
K	Unused sick leave balance(RV)	100	87	13	13%
M	Aetna Retiree Information Report and revised report if there was a change in benefit amount(RQ)	100	58	42	42%
N	Pension Administration System Print Out showing calculations for various payment options(RQ)	100	100	0	0%
O	Average Final Earnings/Final Earnings Calculation Detail(RV)	100	85	15	15%
P	Personnel Action Form from time of hire(RV)	100	81	19	19%
Q	Letter sent to new retiree and copy of first check(RV)	100	94	6	6%
R	Copy of birth certificate/passport evidencing retiree's date of birth(RV)	100	78	22	22%
	<b>TOTAL</b>	<b>1598</b>	<b>1335</b>	<b>268</b>	<b>17%</b>

## Appendix D: OHR Response

### OFFICE OF HUMAN RESOURCES

Isiah Leggett  
*County Executive*

Joseph Adler  
*Director*

### MEMORANDUM

October 15, 2013

TO: Larry Dyckman, Internal Auditor, Department of Finance

FROM: Joseph Adler, Director, Office of Human Resources  
Belinda Fulco, Manager II, Health & Employee Welfare Division  
Office of Human Resources

SUBJECT: Comments on the OIA Report, Montgomery County Disability Benefit Payments

Thank you for the opportunity to comment on the audit of the Montgomery County Disability Benefit Payments performed by the Office of Internal Audit. Our issues and concerns with the tone and substance of the audit were expressed in a memo dated August 12, 2013.

As noted in the Audit, the responsibility for the administration of all retirement Plans was moved from the Office of Human Resources (OHR) (administration), from Department of Finance (financial) and from the Board of Investment Trustees (investment) and were consolidated under the newly formed Montgomery County Employee Retirement Plans lead by Linda Herman.

It has been OHR's privilege to have served as the administrator of the County's retirement plans for the previous 47 years. We are confident that MC ERP will provide excellent customer service to all of the Plans' stakeholders.

JA:bf