

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**PENSION COSTS  
CHARGED TO FEDERAL PROGRAMS  
IN THE STATE OF OHIO**



**JUNE GIBBS BROWN  
Inspector General**

AUGUST 1996  
A-05-95-00014



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V  
105 W ADAMS ST  
CHICAGO, ILLINOIS 60603-6201

OFFICE OF  
INSPECTOR GENERAL

August 30, 1996

Common Identification No. A-05-95-00014

R. Gregory Browning, Director  
Ohio Office of Budget and Management  
30 East Broad Street  
Columbus, Ohio 43266

Dear Mr. Browning:

Enclosed for your information and use are two copies of an Office of Inspector General report titled, "Pension Costs Charged to Federal Programs in the State of Ohio." This report covers the results of our review of the Public Employees Retirement System. We appreciate the cooperation that your staff extended to our auditors and the assistance they provided in coordinating the review.

Final determination as to actions to be taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination. It should be directed to: Merle Schmitt, Director, Division of Cost Allocation, Room 1130, ORD-3, 1200 Main Tower Building, Dallas, Texas 75202.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General audit reports issued to the Department's grantees and contractors are made public, to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please cite Common Identification Number A-05-95-00014 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V  
105 W. ADAMS ST.  
CHICAGO, ILLINOIS 60603-620 1

August 30, 1996

OFFICE OF  
INSPECTOR GENERAL

**SUBJECT:** Letter Report on Pension Costs Charged to  
Federal Programs in the State of Ohio--  
Public Employees Retirement System  
Common Identification No. A-05-95-00014

**TO:** Ohio Office of Budget and Management  
30 East Broad Street  
Columbus, Ohio 43266

We have completed a limited review of pension costs charged to Federal programs in Ohio for the period July 1, 1993 through September 30, 1994. The purpose of the review was to determine whether pension costs charged to grants and contracts were in compliance with Federal regulations, generally accepted accounting principles (GAAP), and actuarial standards.

We determined that excessive charges to Federal programs have resulted from delayed transfers of pension contributions to the Public Employees Retirement System (PERS). The financial impact was determined to be approximately \$380,000 annually on Federal programs administered by the State of Ohio.

We are recommending that pension contributions from the employees' agencies be transferred to the PERS pension plan for deposit to investment accounts in a more timely manner. The State agency concurred and agreed to transfer contributions more timely.

**BACKGROUND**

The State of Ohio has five public employee retirement systems. The retirement systems accumulate assets to provide promised benefits to members when they retire. The assets are accumulated through contributions made by the employers and the employee members of the plan and from investment earnings. The employer's share of contributions are charged, in part, to various Federal programs.

The PERS is considered to be a separate reporting entity, fiscally independent of the State and local governments. It was established in January 1935 as a retirement system for State employees. Since then, the system has expanded to also include county, municipal, health department, and park district employees and to provide survivor benefits and health care coverage. In December 1992, PERS had approximately 334,000 active members and 140,000 retirees. Employer and employee contributions for calendar year 1993 totalled about \$1.3 billion. The PERS funding policy provides for employer

contributions at actuarially determined rates, expressed as a percentage of annual covered payroll.

All State of Ohio payroll accounts are processed by the Ohio Department of Administrative Services (ODAS), Payroll Division. The ODAS applies the appropriate contribution rate to State agency payroll charges to determine agency pension costs. Pension costs are included in the Statewide Cost Allocation Plan which requires Department of Health and Human Services (HHS), Division of Cost Allocation approval.

#### **SCOPE**

Our review was conducted in accordance with generally accepted government auditing standards, except that we limited the scope of our review based on the extent of audit tests performed and results of a comprehensive audit performed by the plan's certified public accountants (CPA). The CPA offered an unqualified opinion on the plan's financial statements. We reviewed the CPA's supporting working papers.

Our objective was to determine if pension costs were being accounted for and charged to Federal grants and contracts in accordance with GAAP, actuarial principles and applicable Federal cost reimbursement principles. To accomplish this objective, we reviewed financial and actuarial reports, administrative and State regulations, and accounting and actuarial principles. We performed such other auditing procedures as were considered necessary in the circumstances.

We met with Ohio Department of Administrative Services (ODAS) officials to determine its procedures for forwarding agency contributions to the pension plan. We reviewed the accounting records to ascertain when deposits for contributions are received by ODAS and when the payments for these contributions are forwarded to the plan. We also visited selected State agencies to determine when funds for payment of the employer's and employees' share of the pension contribution were drawn down and charged to various programs.

We conducted a limited review of the pension plan's published reports, both financial and actuarial, and certain accounting records. We held interviews with PERS staff and State agency officials. Since retirement contributions applicable to programs supported by Federal funds are approved in annual Statewide Cost Allocation Plans, we coordinated our review with the Ohio Office of Budget and Management (OBM) which compiles and negotiates the Cost Allocation Plans. The audit period covered by our review of PERS was January 1, 1993 to September 30, 1994. The field work was performed at various times since that date at the PERS offices, their CPA's offices, and State of Ohio offices.

## FINDINGS AND RECOMMENDATIONS

For the period covered by our review, the independent CPA firm rendered an unqualified opinion on PERS financial statements. Our limited review was focused on certain issues that affect pension charges to Federal programs. Except for the issue covered in this report, nothing came to our attention to indicate that the retirement system was not operating in accordance with applicable laws and regulations.

During our review, we determined that cost savings could be achieved by Federal agencies that provide financial assistance to State of Ohio agencies if delays in forwarding contributions to PERS for investment were eliminated. The annual financial impact was determined to be approximately \$380,000 on programs administered by the State of Ohio. Details follow:

### DELAYED INVESTMENT OF PLAN CONTRIBUTIONS

Delays in forwarding State Group employer and employee pension contributions to PERS for investment result in lost investment income to the pension plan. We estimate that by eliminating the delay in forwarding the pension contributions to PERS, the increased investment earnings could result in potential annual savings of as much as \$1.9 million (Federal share \$380,000 based on an estimated 20 percent participation rate).

State Group pension contributions are transferred from the employing agency to the ODAS which, in turn, forwards them to PERS. The majority of contributions are forwarded by the agencies to ODAS on a bi-weekly basis. The State agencies generally draw down Federal funds to support their employer contributions during the same bi-weekly time period. The contributions are held by the State Treasurer's Office in an interest bearing account, along with other employee payroll deductions, until they are forwarded to PERS. The Federal government does not share in the interest earned by the State while funds are on deposit in this revenue account.

Although ODAS reduced the time period for forwarding employer contributions to PERS, a shorter time period should be implemented. Prior to April 1994, ODAS forwarded employer contributions to PERS on a quarterly basis. Subsequently, the employer contributions have been forwarded on a monthly basis.

Title 45, Code of Federal Regulations (CFR), Subtitle A, Subpart K, Section 74.92--Grant and Subgrant Payment Requirements: Basic standard, requires that:

... (a) Methods and procedures for making payments to recipients shall minimize the time elapsing between

the transfer of funds and the recipient's disbursements....

Subpart H, Section 74.61(e) states, in part, that:

...[p]rocedures shall be established to minimize the time elapsing between the advance of Federal grant funds or subgrant funds and their disbursement by the recipient. When advances are made by a letter-of-credit method, the recipient shall make drawdowns as close as possible to the time of making disbursements....

The Ohio Revised Code, Chapter 145, Public Employees Retirement System, specifies that employers shall pay into the employer's accumulation fund in such monthly or less frequent installments as the public employees retirement board requires. The PERS Employer Manual specifies that employee contributions should be submitted monthly and that employer contributions may be made on a monthly or quarterly basis.

The ODAS receives approximately \$20 million a month for the State Group employer's share and \$12.5 million a month for the employee's share of contributions to the pension fund. The ODAS transmits these contributions to PERS on a monthly basis.

We calculated the amount of investment earnings forfeited by the pension plan resulting from the delayed transfers of employer and employee contributions. For the 6-month period April 1994 to September 1994, the plan forfeited about \$586,000 in potential earnings on the employer contributions. Over a 12-month period, we estimate that the delays result in a loss of investment income in excess of \$1 million. For the year ended September 30, 1994, the amount of forfeited investment earnings associated with the employee contributions was about \$900,000.

Although ODAS has been following procedures that it agreed to with PERS, it has the ability to forward payroll deductions on a shorter time schedule. For example, payments for Federal withholding taxes are generally remitted to the Internal Revenue Service within one work day. Payments to recipients of certain other employee deductions are made bi-weekly. If pension contributions were to be forwarded to PERS in a more timely manner (i.e., possibly within one work day after they are received) the pension plan would be able to earn additional investment income. The additional income could then be used to offset current or future costs or to reduce the plan's unfunded actuarial accrued liability (UAAL).

**Recommendation.** We recommend that the Ohio Office of Budget and Management coordinate with ODAS to eliminate the delays in forwarding agency pension contributions to PERS for investment.

**STATE AGENCY COMMENTS**

The State agency concurred with our findings and recommendation regarding delays in forwarding pension contributions to PERS for investment. They informed us that they will implement a mechanism to reduce the delays.

Paul Swanson

A handwritten signature in cursive script that reads "Paul Swanson".

Regional Inspector General  
for Audit Services