



Federated City Employees' Retirement System

Police and Fire Department Retirement Plan

Death Verification and Overpayment Tracking Process

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Executive Summary

We audited the death verification and overpayment tracking process with the objective of evaluating the overall process design and implementation of verifying deaths. This process is important in minimizing or preventing benefit overpayments. We also assessed the sufficiency of monitoring procedures for overpayments.

In performing the audit, we reviewed the documented policies and procedures including the contractual agreement with the death audit service provider. We also tested 50 death notifications for the fiscal year 2018-2019 (25 each for Federated and Police and Fire Plan) to determine whether Benefits Division timely notifies Accounting Division to stop benefit payouts whenever applicable. The audit testing included verification of timely voiding of payments as well. Furthermore, we checked the adequacy of tracking and monitoring overpayments due to deaths.

Overall, the process design in verifying deaths is sound and effective. Below are the positive observations noted in the audit.

- ORS has a sound process in verifying deaths. By contracting a death audit service provider, the gap from untimely communication of deaths from traditional channels (family, friends, etc.) is bridged.
- Policies and procedure maintained in the control workflow file is comprehensive.
- From the samples selected where there is no benefit continuance, notifications to delete deposit/void payment were all sent in a timely manner and thus preventing overpayments.
- Benefit payments that should be stopped were voided on time.
- Benefits staff performs thorough research in confirming the validity of a death report.

However, the following issues were identified that should be addressed to further strengthen internal controls and improve the process over death verification and overpayment tracking process.

- a. There is currently no official contract with DASP. There is an ongoing dispute regarding the terms of the contract specifically the wordings for insurance guarantee.
- b. The monitoring process in tracking benefit overpayments is lacking.
- c. It was discovered that the known overpayments not yet recovered are all due from the members' estates. There is currently no formal process in place to collect amounts due from the estate.
- d. Benefits Division doesn't have process to ensure the outsourced death audit service provider has controls over data security, privacy, integrity, availability, and confidentiality.
- e. There's one exception from the samples taken where a monthly check should have been voided but Accounting Division missed the request to delete the deposit. This resulted to an overpayment amounting to \$6,090.99.
- f. Benefits staff follow the control workflow but they don't have a universal worksheet in tracking the progress in processing death cases.

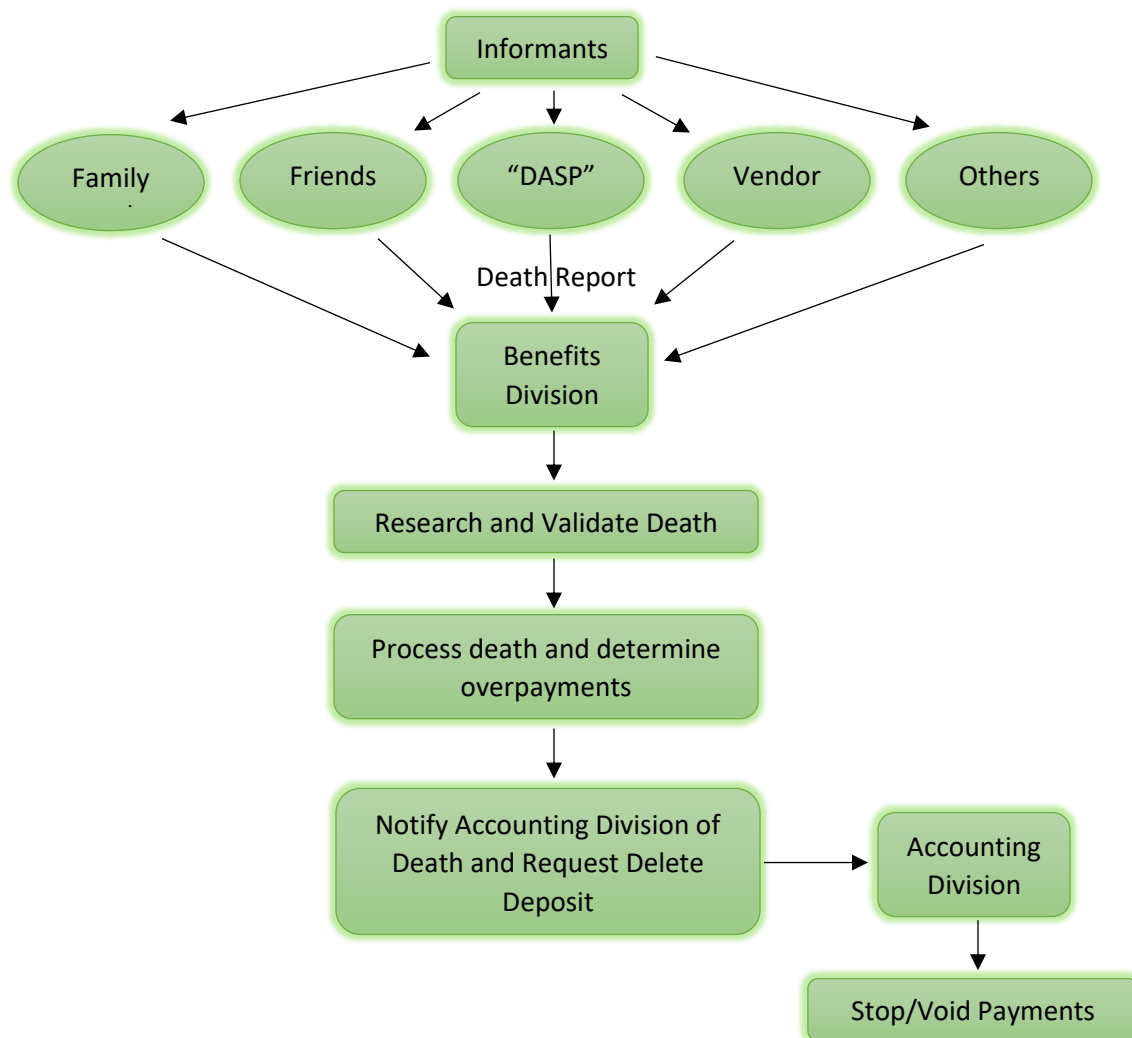
- g. The current process of sending a death notice to Accounting Division happens only if there is no benefit continuance and if a check should be voided.
- h. The requirement to complete a death processing intake form is not being followed. From the samples selected, some have either no form or there's missing information on the form.

Audit recommendations based on the findings have been made in order to improve the process. Details of the recommendations and findings can be referenced in the Audit Results section of this report.

Background

Due to the nature of the department which is a government entity administering pension plans, it is essential to have a systematic operational process to ensure complete and timely accounting of deaths. For this reason, the Benefits Division established a process for tracking and verifying death of a person receiving benefits from the plan such as the member, surviving spouse, surviving child, and nominated beneficiary (collectively called “benefit recipient” for this audit). This is one of the essential functions carried out in order to minimize or avoid benefits overpayment, prevent fraud, and fulfill fiduciary responsibilities.

The diagram below shows the summary of the process.



The verification process starts when a family member, friend, health care vendor, or any other person reports the death of a benefit recipient to ORS. However, these traditional channels are not always effective in reporting deaths timely. To supplement the current process, ORS hired a death audit service provider (“DASP”). DASP engages primarily in the business of compiling, maintaining, and disseminating

information about death reports received by the US Social Security Administration and by other official government agencies.

A data set is uploaded to the DASP's portal every month to keep all benefit recipient information updated on the vendor's database. Data set includes information on a member/surviving spouse/beneficiary's name, social security number, date of birth, and sex. DASP will run the names periodically against a database of obituaries to confirm deaths. Weekly death reports are then produced and retrieved by staff through the vendor's website.

Once ORS is advised about a death of a benefit recipient through any of the channels mentioned, a "death processing intake form" is filled out. The form summarizes the immediate steps that must be taken primarily to avoid benefit overpayments. A benefits staff will then research and verify the validity of the report. This is a critical step in the process as the department needs to be very careful in handling death reports. This is to prevent inadvertent stopping of benefit payments for members who are still alive. There were also instances where staff receive calls from random people pretending to be a relative of a plan member. Staff are very cautious for this reason.

A benefits staff will then continue to follow necessary procedures in processing the death of a member such as determining continuance, calculating new benefit payments, determining overpayments, sending packets to a survivor, updating information in Pension Gold, etc. If there is survivorship, overpayment is deducted on the first survivor check.

If there is no benefit continuance, a staff from benefits division will send an email to accounting team to notify the death of a member and ask for "Delete Deposit". If request was done before the monthly benefit payout (last business day of the month), a staff from accounting division will ask deletion of ACH information from the bank. If it is after the payout, a payment reversal would be requested. The latter can only be accommodated four days subsequent to the monthly benefit payment. The bank cannot process the reversal beyond that date or if the money is already withdrawn by the member. In this case, benefits division would have to track this as an overpayment. The steps above are always done after payroll balancing. Otherwise, a payroll adjustment form with back-up calculations should be filled out instead for pro-rata payment to the member.

Audit Objective

The objectives of this audit are to assess the following:

- a. Whether current verification process is sound and effective to detect deaths of benefit recipients.
- b. If there are procedures in place to track the progress in processing deaths.
- c. Timely communication with Accounting Division to minimize overpayments.
- d. Internal controls related to the death verification process.
- e. If there is a process in monitoring pension overpayments due to deaths of benefit recipients.

Audit Scope

The audit covers the following:

- a. Death tracking, verification, and process design
- b. Death notifications from informants (e.g., family, friends, relatives, vendors, DASP, etc.) for the fiscal year 2018-2019.
- c. Documented member death policies and procedures.
- d. Contractual agreement with DASP (death verification service provider).
- e. List of known overpayments (due to member deaths) for collection.

Audit Methodology

- a. Interviewed Benefits and Accounting staff.
- b. Performed walkthrough of the death verification process.
- c. Reviewed the written procedures (control worksheets/workflow).
- d. Assessed controls in place to track the progress in processing deaths.
- e. Checked the contractual agreement with DASP.
- f. Evaluated the adequacy of monitoring process for benefit overpayments.
- g. Sampled 50 death notifications within the covered period to determine timely processing including voiding/stopping of payments if applicable.

Audit Results

Overall, the process design in verifying deaths is sound and effective. Below are the positive observations noted in the audit.

- ORS supplemented the conventional process of verifying deaths. By contracting a death audit service provider, the gap from untimely communication of deaths from traditional channels (family, friends, etc.) is bridged.
- The control workflow worksheet maintained by the Benefits Division is comprehensive. The file clearly defines the procedures to be taken in processing deaths.
- The death processing intake form that was recently created to assist in the process is helpful in timely notification of deaths to Accounting Division. It contains steps to follow after a staff is notified by a death of a benefit recipient. From the samples selected where there is no benefit continuance, notifications to delete deposit/void payment were all sent in a timely manner and thus preventing overpayments.

The form also covers relevant information to share to the death informant so he/she is aware of what to expect in terms of benefit continuance, if applicable.

- Generally, benefit payments that should be stopped were voided on time.
- Benefits Division is very careful in verifying deaths. No matter where the notification came from, they always do a thorough research to confirm the validity of the report and prevent unintended discontinuance of benefit payments to recipients who are still alive.

This is evident in one of the samples that was selected. From the DASP report, there was a death match to a member of the plan. To verify if it is a correct death match, staff did obituary checks and communicated with the family member and determined that the member is still alive. If staff did not do additional research, there could have been an unintentional termination or reduction of payments depending on whether there is a benefit continuance to a survivor or any designated beneficiary.

In terms of tracking the overpayments due to a death of a benefit recipient, Internal Audit finds that the monitoring process is not adequate. Details can be referenced in the Findings section.

Below are the issues identified that should be addressed to further strengthen internal controls and improve the implementation of the process over death verification and overpayment tracking.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed as high, moderate, or low follows:

1. High – Finding that requires immediate action by management.
2. Moderate – Finding that requires timely action by management.
3. Low – Finding that requires action by management at the earliest convenience.

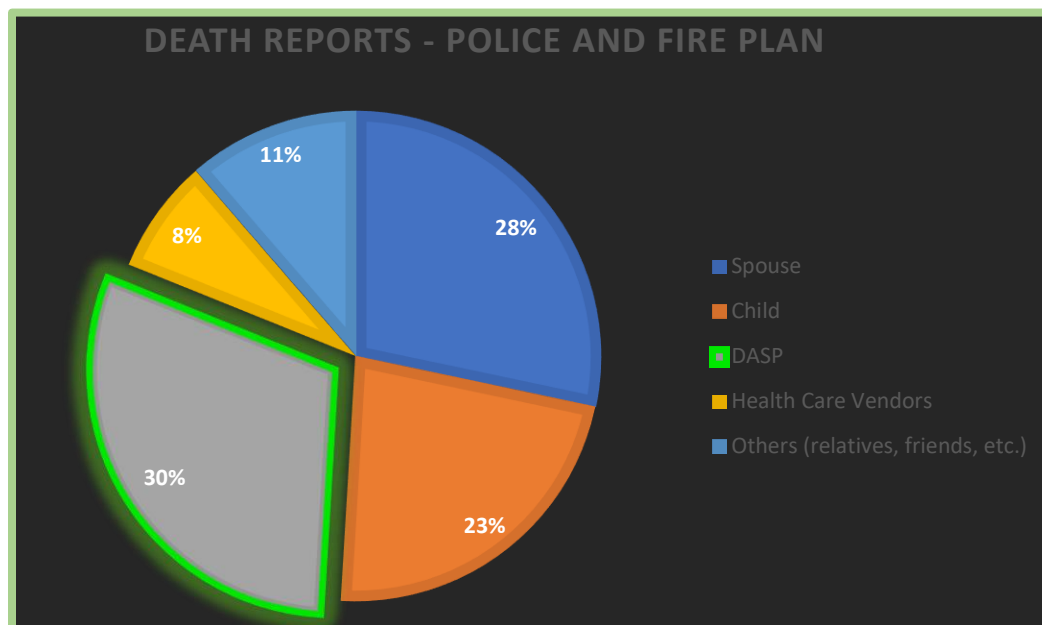
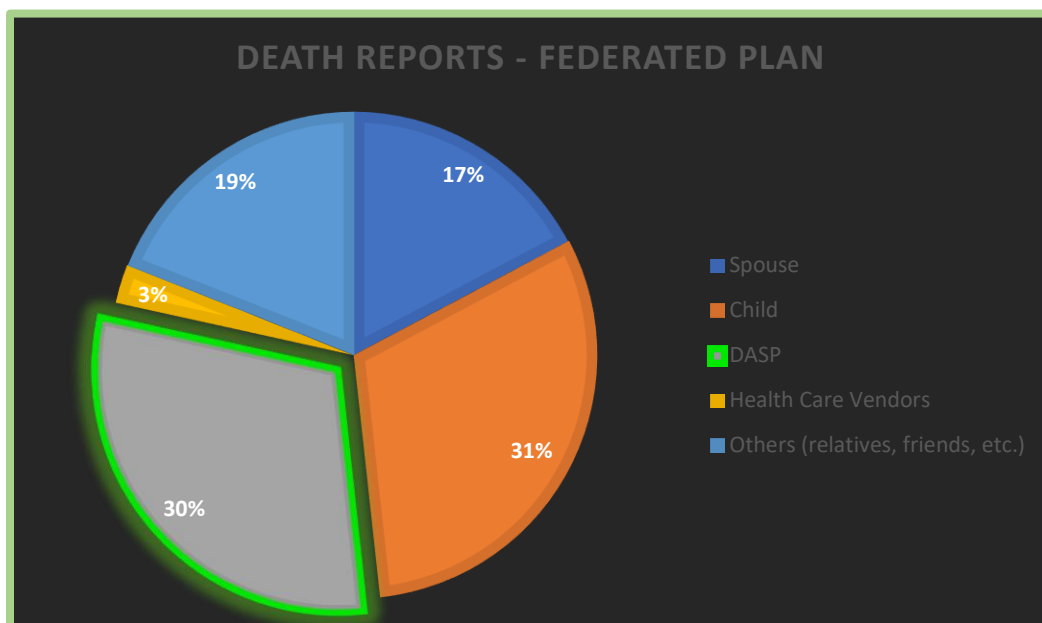
Finding #1: There is currently no official contract with DASP. There is an ongoing dispute regarding the terms of the contract specifically the wordings for insurance guarantee.

DASP's contract language includes a stipulation for insurance covering \$15M in errors and omissions, \$5M in cyber liability, and \$5M of umbrella coverage but there is also a provision limiting its liability to only three years' worth of fees which is below \$50,000. ORS's legal counsel is suggesting to eliminate that liability provision and change the wordings so the department can claim against the vendor's insurance up to the policy limits. From the ORS legal counsel's standpoint, the limitation on the vendor's liability is an artificially small amount considering what at stake here are very confidential data about members' personal information. Here's a direct example from the legal counsel where retaining the provision about the liability limitation makes it highly risky. *"If they have a data breach and we get sued by our members in a class action, for example, we will have no recourse against them whatsoever".*

The original contract signed by both parties was dated in July 1996 and an amendment was made in November 2000. Presently, ORS is on a month to month billing with the vendor. Without a proper contract, the services to be provided, fees, and other important stipulations will be unclear and the department is not protected for any amount since there is no contract in place.

In addition, the vendor mentioned that they are governed by regulations that can force them to cancel the services if there is no agreed upon contract. This will be particularly risky to the overall process of verifying and tracking member deaths. For the fiscal year 2018-2019, almost a third of the reported deaths came from DASP (see chart below) which is a significant number. If the services will be cancelled abruptly,

timely death reports will be compromised and the plans will face a considerable amount of benefit overpayments.



Federated Plan – Spouse (20); Child (36); DASP (35); Health Care Vendor (3); Others (22)
Police and Fire Plan - Spouse (15); Child (12); DASP (16); Health Care Vendor (4); Others (6)

Priority Rating: High

Recommendation #1: Communicate and follow-up with the legal counsel regarding the resolution of the contract dispute. If the issue cannot be resolved between the two parties, ORS should seek another

vendor that will provide the same services and agree to insurance requirements. This needs to be done as soon as possible to prevent any risk that can result from not having an agreed upon contract.

Finding #2: During the course of the audit, it was observed that the monitoring process in tracking benefit overpayments is lacking.

The current process is once a death is reported, an analyst from the Benefits Division will be assigned to handle the case. Depending on each scenario, the analyst will verify the death, input death records in Pension Gold, determine benefit continuance, calculate overpayments, set-up survivor information in Pension Gold, arrange death benefits, and follow other necessary procedures. Each of the analyst maintains his/her own worksheet that tracks the progress in processing deaths including any pension overpayment but there is no master file that contains the consolidated information.

During the audit testing, it was noted from the samples taken that there are some inconsistencies on the response of whether is an overpayment or not. There are three samples where staff acknowledged that there were no overpayments but upon checking the relevant information and additional documents, it was determined that there were overpayments for the months prior to the death of the benefit recipients amounting to approximately \$2,349, \$746, and \$131. This issue is due to insufficient monitoring procedures.

Accounting Division has a list of overpayments that should be collected from the estate but the file is not comprehensive. The compiled information is only a by-product resulting from their current process of checking the financial liability accounts for the health care insurance vendors. The list wouldn't even exist if this process is not currently in place. Furthermore, the document only includes members with enrolled health care benefits. At this time, the list has a total of over \$51,828 (Federated: \$19,163; Police and Fire: \$32,665 – Range is \$21 to \$13,266) overpayments that need to be collected from the members' estate. However, since it is not complete, there could be more overpayments that the management is not aware of due to lack of monitoring process.

Priority Rating: High

Recommendation #2: Under section 6D of the policies and procedures governing the overpayment to members of both Federated and Police and Fire plans, it states that "The Plan will maintain a permanent record of all amounts of overpayments and the repayment to the Plan of those overpayments." Considering this policy, the Benefits Division should develop and document policies and procedures to track benefit overpayments due to a death of a benefit recipient. It is important to maintain a monitoring process since overpayments due to deaths occur regularly.

A consolidated worksheet can be created to contain relevant information which may include but is not limited to the following: member/survivor/beneficiary name, date of death, amount of overpayment, repayment options, period of collection, recovered amount, and condoned amount. Supporting documents such as calculations, proof of collection, condonation approval, etc. should also be kept.

Maintaining a compiled information will assist the department in monitoring the overpayments. Moreover, this can also serve as an aid in the collection process. Management will be more aware of the status of the overpayments. They will be able to review relevant information so they can effectively plan on the next steps in reclaiming the amounts overpaid.

Finding #3: In relation to finding #2, it was discovered that the known overpayments not yet recovered are all due from the members' estates.

There is currently no formal process in place to collect amounts from the estate due to its complexity. Benefits Division will usually attempt recovery of funds by sending out letters to the estate but sometimes they find it hard to receive a response and/or retrieve the payments due to some legal constraints.

For claims to estate, collection is done through probate proceedings. Creditors do not have an unlimited amount of time to make claims against the estate. Statute of limitations and probate procedures depend on each state law. There is also no assurance that the whole amount owed to the creditors can be obtained. If the estate is insolvent, settlement to creditors will be prioritized which again depends on state laws. Some claimants may receive payments before others. Conditional to the sufficiency of the funds, the rest of the creditors will receive pro-rata payments or nothing at all.

Priority Rating: High

Recommendation #3: Discuss with the Board and management the next steps that can be taken in order to reasonably make an effort in retrieving the overpaid amounts with the consideration of costs and benefits. Seeing that most, if not all unrecovered amounts are related to an estate or trust, the legal counsel should be involved. Discussion should include procedures to attempt recovery of funds as well as actions to be taken if collection is not possible anymore (e.g., write-off in the books).

It is critical to determine what the course of action will be taken to collect the overpaid amounts. The known overpayments may be small in comparison to the Plans' assets right now but they can accumulate over time and be material enough.

Losses resulting from overpayments can also be seen as an opportunity cost to the plans. The plans could have invested these funds instead. Considering the unfunded status of the plans, it is imperative to collect as much overpaid amounts as the department can.

Finding #4: Benefits Division doesn't have process to ensure DASP has controls over data security, privacy, integrity, availability, and confidentiality.

Due to the recent and increasing cyber security attacks, information security is now one of the major concerns of all organizations. Mishandled data can expose the organization to threats such as data theft, ransomware attacks, and malware installation.

As mentioned earlier in the background, a considerable part of the member death verification process is being outsourced to a service organization. To facilitate the process, a staff from the Benefits Division is sending a data set to DASP to keep all member information updated in the vendor's database. Since the information includes highly sensitive personal information, ORS must make sure data is protected.

Priority Rating: High

Recommendation # 4.1: In order to determine if the outsourced vendor has effective controls over data security, Internal Audit recommends requesting and reviewing SOC 2 certification annually. SOC 2 is developed by the American Institute of Certified Public Accountants ("AICPA") that requires service organizations to establish and follow policies and procedures that encompasses the "five trust principles"

– security, availability, processing integrity, confidentiality, and privacy. The SOC 2 reports on the design and operating effectiveness of non-financial reporting controls as they relate to the five principles above.

Once the report is obtained, management should review the document particularly the scope of the report, the services covered, controls tested, and most especially the opinion on whether the control systems are properly designed and are operating effectively. Accordingly, management should also take note of the exceptions and the response plan to determine whether the control exception or failure can in any way affect the department's systems, functions, and information.

Recommendation # 4.2: In addition to above, it is always a good business practice to exercise ongoing due diligence on vendors. Periodic inquiries to the outsourced service providers should be made to ensure that there are no material changes regarding the service provider's systems and applications that can affect the department's operations. This also serves a guide to assess if the services being provided still meet the varying needs of the department. Ongoing due diligence can prevent unwarranted scenarios that can expose the plans to certain risks.

Finding #5: There's one exception from the samples taken where a monthly check should have been voided but Accounting Division missed the request to delete the deposit. This resulted to an overpayment amounting to \$6,090.99. The amount was eventually collected from the estate.

Priority Rating: High

Recommendation #5: Upon talking to Accounting Division, they confirmed that this is an isolated case and the issue was already addressed. They reinforced the procedures to prevent this problem from happening again. Part of the procedures imposed is to respond to the Benefits team in a timely manner to confirm deletion of deposit. Internal audit recommends to continue implementing the process closely. Accounting should process the delete deposit request as soon as the notification email is received. Furthermore, if the pending action is urgent, Benefits team should follow up via phone call or in person.

Finding #6: As noted in the findings, each staff assigned to handle death cases has his/her own procedures in processing deaths based on a control workflow file. The control workflow summarizes the step by step procedures in processing member deaths. Although, the workflow is being followed, each staff has his/her own set of working papers. Tracking of the progress is done separately as well.

Priority Rating: Low

Recommendation #6: Internal Audit recommends to have a universal worksheet that is based on the control workflow. The worksheet will be the basis for their working papers and will serve as a guide in handling deaths. This is to ensure that no step will be missed in processing deaths of benefit recipients.

Furthermore, a certain staff should be assigned to put together the progress of each death case. This will serve as a monitoring mechanism to ensure timely processing. Considering the turnover in the Benefits Division, it is important to have a consolidated file that contains relevant information about all death cases' progress so everyone is aware of the status. This is especially helpful if a staff left and another staff took over. The new staff will immediately know where the process is currently at and proceed accordingly.

Finding #7: During the audit, it was determined that the current process of sending a death notice to Accounting Division happens only if there is no benefit continuance and if a check should be voided.

Priority Rating: Low

Recommendation #7: It is recommended to send all death notices to Accounting Division even if there is no immediate action to be taken on their part. It is a good business practice to make everyone aware of the situation so staff know what to expect and they can plan on the next steps in the process.

For example, there is a death reported early in the current month before payroll balancing (assuming date of death and report date is the same). In the current process, there will be no notice to Accounting since there's no need to void a check and a pro-rata payment will be given instead. If the recommendation will be implemented, the death will be communicated to Accounting even if there is no action necessary for them to take for the meantime. With this notice, it will allow Accounting Division to prepare for what's coming. They will know what documents to expect such as payroll adjustment forms and they will be more aware of the things to look out for in doing the payroll balancing and reconciliation process. This will assist them in catching adjustment errors proactively.

Finding #8: The requirement to complete a death processing intake form is not being followed. From the samples selected, some have either no form or there's missing information on the form.

Priority Rating: Low

Recommendation #8: Strictly implement the current procedure in place of completing the death processing intake form.

The form was developed to ensure there is enough data to verify the validity of death reports. This also serves as a tool in providing timely notifications to Accounting to prevent or minimize benefit overpayments. All the information in the intake form will help the staff in proceeding with the next procedures in handling deaths such as terminating membership in Pension Gold, determining benefit continuance, setting up survivor information as applicable, processing death benefits, etc. in a timely manner.

Appendix A - Control Risk Reassessment

Control Risk Scoring Scale

1 Strong	2 Reasonably Strong	3 Adequate	4 Marginally Adequate	5 Weak or Nonexistent
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Initial Assessment – Control risk for death verification and overpayment tracking process was rated 3 in the planning phase of the audit based on the assumption that internal control design is present but there's not enough evidence to conclude its effectiveness and proper implementation.

Reassessment – After performing test of controls in the audit execution, it was determined that controls are marginally adequate. If recommendations will be implemented, internal controls will be categorized under strong (1) or reasonably strong (2) classification.

Division	Audit Activity	Control Risk Score (Initial Assessment)	Control Risk Score (Reassessment after Audit Testing)	Control Risk Score (If recommendations will be implemented)
Benefits	Death Verification and Overpayment Tracking Process	3	4	1