



# **Status of Audit Recommendations**

## **February 18, 2021**

**Office of Retirement Services – Internal Audit**

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## Background

As of January 2021, the ORS Internal Audit Division (IAD) has issued five audit reports with recommendations to improve ORS's operations. This report provides the status of all audit recommendations as of January 2021.<sup>1</sup> Exhibits 1 through 5 provide the following information for each of the 5 audit reports:

- A summary of audit findings
- A summary of audit recommendations
- The status of audit recommendations (e.g., complete, in process, closed)
- ORS management's original response to the audit recommendations
- Status update(s) from ORS management for each audit recommendation.

*Mandate and authority* To ensure that ORS management is accountable for implementing audit recommendations or accepting the risk of not taking action, internal auditing standards require auditors to establish and maintain a system to monitor the disposition of audit results communicated to management.

*Summary* There were 26 audit recommendations in the 5 IAD audit reports issued to date. ORS management reported that as of January 2021, 17 (65 percent) of the 26 recommendations have been implemented and 6 are in process.<sup>1</sup> ORS management disagreed with some of the audit recommendations, and the IAD has closed 3 of those recommendations meaning that management accepts the risk of not implementing them and they will not be included in future status reports. Below is a summary of the audit recommendations shown in Exhibits 1 through 5.

## Status of Audit Recommendations as of January 2021<sup>1</sup>

Audit	Audit Recommendations			
	Total	Implemented*	Closed <sup>+</sup>	In Process
1. Investment Cash Outflows (issued 10/17/2019)	5	0	3	2
2. Member Death Verification (Issued 10/17/2019)	8	6	0	2
3. Cash Disbursements (Issued 2/20/2020)	3	3	0	0
4. Benefit Payments (Issued 2/20/2020)	5	5	0	0
5. Service Retirement Applications (Issued 5/21/2020)	5	3	0	2
<b>Total:</b>	26	17	3	6

\*The entire audit recommendation, including all subsections have been addressed.

<sup>+</sup> ORS management disagreed with the recommendation, in part or in whole, and accepts the risk of not implementing it.

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<sup>1</sup> ORS staff provided some updates in February 2021. Those are noted in the following exhibits.

**Exhibit 1: Recommendation Status – Audit of Investment Cash Outflows (Investments Division, Issued October 17, 2019)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #1:</b> The Investment Division owns the investment wires and internal transfers process from initiation, processing, review, and approval. Proper segregation of duties may be an issue.	1.1. Internal Audit recommends sharing the investment wires and transfers process with Accounting Division.	Closed (Not Implemented)	<b>Disagree:</b> The current process for wire mid internal transfers involves at least three members of staff. Transfers of over \$10 million require approval by either the CEO, CIO, or the Deputy Director. It should also be noted that investment staff cannot make changes to the wire instructions which is hardcoded in the eCFM system by State Street, the plans' custodian. The approvers review the wire instruction details at all levels prior to approving a transaction to ensure funds are sent to the correct recipients.	<b>January 2021 Update:</b> Management disagreed with the recommendations. Three staff members are involved in the wire transfer process and the entire investment group is made aware of the scheduled transfers.
	1.2. To reduce the risk of not appropriately evaluating the work regarding wire and internal transfer requests, it is recommended that another authorized staff, separate from the person who requested the funding, should perform the review step in the process.			
<b>Finding #2:</b> There were two capital call wires that were processed late for the Police and Fire plan.	2.1 To prevent any penalties from occurring, it is crucial to always send the funds within the set deadline. Internal audit recommends strengthening the process of monitoring capital calls.	Closed (Partially Implemented)	<b>Partially Agree:</b> This process has always been in place. Due to staff turnover in the investment operations group, this wire was missed. The process was reviewed following the incident and now requires an investment officer to also notify the Investment Operations Supervisor of the capital call request.	<b>January 2021 update:</b> Recommendation 2.1 has been implemented. The investment Officer and/or Investment Analyst notifies the Operations Group of the capital call transfer.
	2.2 By continuing to check cash movements and update the information on the cash flow worksheet daily, a timelier inquiry and resolution can be made to address any issue with wires and internal transfers.			
	2.3 For international wires, it is recommended to send the funds at least a day before the due date.			

**Exhibit 1: Recommendation Status – Audit of Investment Cash Outflows (Investments Division, Issued October 17, 2019)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #3:</b> Documentation supporting the reason for funding request and calculation of the amount for trades instructed by Investment Officers are not included as an attachment in eCFM.	3. Include all supporting files and back-up calculation in setting up funding requests in eCFM.	Closed (Not Implemented)	<b>Disagree:</b> Data for transfers are stored in the department's server and available to the approver for review. eCFM is State Street's web portal for fund transfers. Including data related to investments, especially alternative investments, could lead to inadvertent release of undisclosable information.	<b>January 2021 Update:</b> Management disagreed with the recommendation.
<b>Finding #4:</b> There is no procedure in place to make sure investment managers receive the funds wired or transferred.	4. Develop a uniform process that will enable the Investment Team to confirm if the investment managers receive payments timely. Document the process in the written policies and procedures.	In Process	<b>Disagree:</b> Will evaluate the process	<b>January 2021 Update:</b> None
<b>Finding #5:</b> Wire and Internal transfer directives are not stored and maintained separately from the eCFM system.	5. Update the current procedure in place to include a step to store and maintain the completed eCFM wire directive separately from the custodian's system.	In Process	<b>Disagree:</b> Will evaluate the process	<b>January 2021 Update:</b> None

**Exhibit 2: Recommendation Status – Audit of Member Death Verification (Benefits Division, Issued October 17, 2019)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #1:</b> 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.	1. Communicate and follow-up with 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.	Complete	<b>Agree:</b> There is currently not a contract in place. The division manager will consult with counsel regarding contract issues and initiate a procurement process if necessary.	<b>February 2021 Update:</b> ORS has contracted with the Berwyn group to provide death audit services.
<b>Finding #2:</b> During the audit, it was observed that the monitoring process in tracking benefit overpayments is lacking.	2. 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.	Complete	<b>Agree:</b> Overpayments are currently tracked on an individual basis. We agree that a consolidated worksheet should be implemented. This will be implemented immediately for overpayments.	<b>February 2021 Update:</b> The Benefits group now records overpayments in a consolidated worksheet.
<b>Finding #3:</b> In relation to finding #2, it was discovered that the known overpayments not yet recovered are all due from the members' estates.	3. Discuss with the Board and management the next steps that can be taken to reasonably make an effort in retrieving the overpaid amounts with the consideration of costs and benefits.	In Process	<b>Agree:</b> ORS will work with counsel to establish approaches and legal considerations. Whereas Benefits staff currently work on recovering such overpayments, assistance from resources skilled in this area would be welcomed, such as a collection agency. Education in probate would also be beneficial for Benefits staff.	<b>February 2021 Update:</b> Benefits staff are now processing estate claim forms (DE172). Education for staff on probate is still outstanding at this time.
<b>Finding #4:</b> Benefits Division doesn't have a process to ensure DASP has controls over data security, privacy, integrity, availability, and confidentiality.	4.1 To determine if the outsourced vendor has effective controls over data security, Internal Audit recommends requesting and reviewing SOC 2 certification annually.	In Process	<b>Agree:</b> SOC2 reports will be requested annually going forward. ORS will implement a due diligence process with all ORS vendors that will be conducted at least annually.	<b>February 2021 Update:</b> SOC2 reports are requested and reviewed annually for outsourced Vendors. Recommendation 4.2 is in process with an anticipated completion date of June 2021.

**Exhibit 2: Recommendation Status – Audit of Member Death Verification (Benefits Division, Issued October 17, 2019)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
	4.2 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.			
<b>Finding #5:</b> There is one exception from the samples taken where a monthly check should have been voided but the 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.	5. 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.	Complete	<b>Agree:</b> The Accounting Division agrees with this recommendation and has been following the outlined process closely since the incident. The Death Workflows will be amended to incorporate the necessary steps to aid notification and processing of these situations. A process to improve communications between the Accounting and Benefits groups will be defined and implemented to address this immediately.	<b>February 2021 Update:</b> Email communications have been implemented between Accounting and Benefits to address this issue. The workflow still needs to be updated.
<b>Finding #6:</b> 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.	6. Internal Audit recommends having 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.	Complete	<b>Agree:</b> Benefits maintains a spreadsheet of deaths; however, the audit calls for additional data to be tracked. Benefits will add the additional data elements to the death tracking spreadsheet to enhance tracking reported deaths. In addition, workflow reports will be used to identify Death processing in progress, including identifying the steps progress.	<b>February 2021 Update:</b> Benefits has added the additional data to the spreadsheet of deaths. In addition, workflow reports are used to identify death processing in progress, including identifying the steps progress.

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**Exhibit 2: Recommendation Status – Audit of Member Death Verification (Benefits Division, Issued October 17, 2019)**

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<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #7:</b> 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.	7. It is recommended to send all death notices to the Accounting Division even if there is no immediate action to be taken on their part.	Complete	<b>Agree:</b> Benefits was not notifying the Accounting group of every death notice, unless there was a need to void a check or stop a direct deposit transaction. The recommendation will be implemented immediately, to send all death notices to the Accounting Division even if there is no immediate action to be taken on their part.	<b>February 2021 Update:</b> Benefits staff notify Accounting of every death.
<b>Finding #8:</b> The requirement to complete a death processing intake form is not being followed. From the samples selected, some have either no form or there is missing information on the form.	8. Strictly implement the current procedure in place for completing the death processing intake form.	Complete	<b>Partially Agree:</b> Several of the audit file samples were processed prior to the implementation of the current death intake form. Benefits is currently using the death intake form to process all deaths. Benefits will make sure all death notices have complete information on the intake forms.	<b>February 2021 Update:</b> Benefits staff are now using the death intake form for all deaths and are entering the information on the intake form.

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**Exhibit 3: Recommendation Status – Audit of Cash Disbursements (Accounting Division, Issued February 20, 2020)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #1:</b> From the samples selected for operating and administrative expenses, 13 out of 50 invoices were paid late (3 – 90 days late). Amounts vary from \$1,200 to \$42,000.	1. Internal Audit recommends strengthening the monitoring process for invoice payments.	Complete	<b>Agree:</b> An invoice log has been created to track when invoices are received, processed, and paid. This will help in following up and ensuring the invoices are paid timely.	<b>January 2021 Update:</b> A log has been created. However, lags still arise due to contracts from other divisions not being processed in time to pay the invoices.
<b>Finding #2:</b> Instruction to wire funds from ORS's cash custody bank (State Street) to the Finance Department's bank (Wells Fargo) for reimbursement purposes is done through a less secure channel which is by fax.	2. Consider utilizing eCFM (electronic cash flow module) which is a more secure and efficient channel in sending wire instructions.	Complete	<b>Agree:</b> Management agrees with this and has discussed implementing it with the current custodian bank. However, no training has been provided yet, and ORS is in the midst of an RFP for a new custodian bank.	<b>January 2021 Update:</b> Since October 2020 when ORS switched to the new Custodian Bank, BNY Mellon, all wires are being done on their online platform with all the required approvals.
<b>Finding #3:</b> There is no threshold set for the month-to-month vendor payroll variance analysis.	3. Establish a percentage and dollar threshold amount that can be accepted without further investigation.	Complete	<b>Disagree:</b> Currently this is not an issue since the accountant who reconciles the vendor payroll is very efficient. On a go-forward basis, Accounting will revisit this if necessary.	<b>January 2021 Update:</b> Starting with the December 2020 payroll, management established a threshold of 1% for service benefit payments and \$5,000 for all other types of benefit payments.



**Exhibit 4: Recommendation Status – Audit of Benefit Payments (Benefits Division, Issued February 20, 2020)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #1:</b> There were some checks with the same sequence number but with different amounts and paid for a different purpose.	1. Follow up with IT group and system's vendor to ensure controls that are supposed to be present are working as expected.	Complete	<b>Partially Agree:</b> Accounting has implemented a manual process to ensure that duplicated checks do not occur. Any automated controls will have to come from the vendor.	<b>February 2021 Update:</b> None
<b>Finding #2:</b> Bank reconciliations for some months are not performed in a timely manner.	2. Timely reconcile the ZBA bank accounts to the general ledger on a monthly basis. Preparer and reviewer should sign-off their initials along with the corresponding date.	Complete	<b>Agree:</b> Due to the CAFR season and vacancies in the Accounting group, the ZBA reconciliation fell behind. However, a new Accountant was hired and this responsibility was assigned to him as part of his monthly responsibility.	<b>February 2021 Update:</b> None
<b>Finding #3:</b> The process of reconciling the total number and value of checks transactions to pension administration reports are not documented.	3. Check reconciliation procedures should be modified to show proof of preparation and review. A sign-off should be required that specifies the preparer and reviewer's initials and the date the actions are performed.	Complete	<b>Agree:</b> This has been implemented and the sign off and documentation will be added to the process.	<b>February 2021 Update:</b> None
<b>Finding #4:</b> The benefit payment internal control memo is not updated with the procedural changes and information.	4. Update the current internal control memo in place to revise applicable changes due to the conversion of the pension administration system to a newer version.	Complete	<b>Agree:</b> The accounting manual is currently being updated for changes due to V3 of the pension administration system. This should be complete by the end of this fiscal year.	<b>February 2021 Update:</b> None
<b>Finding #5:</b> There were a few differences noted from the original general ledger transaction report generated from the pension administration system to the actual journal entries posted in FMS.	5. Develop a comprehensive file that will show the items that should be noted in preparing the journal entries. Make a list of the account code differences between the two systems.	Complete	<b>Agree:</b> This has been implemented.	<b>February 2021 Update:</b> None

**Exhibit 5: Recommendation Status – Audit of Service Retirement Applications – (Benefits Division, Issued May 21, 2020)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #1:</b> In calculating the service retirement benefit payments, it was observed that one sample from the Federated plan (Tier 2B) has an incorrect COLA amount.	1.1 Management should coordinate with the pension administration system's vendor to automate the calculation of COLA for Tier 2 members of both Federated and Police and Fire plans.	Complete	<b>Agree:</b> Pension Gold was updated in 2020 with the functionality to calculate Tier 2 COLA. ORS staff have reviewed the prior manual Tier 2 COLA calculations and are in the process of calculating corrections if they are necessary. A methodology has been put in the Pension Administration System to automate the calculation of Tier 2 COLAs. Prior COLA calculations will be reviewed by staff for Tier 2 and will be corrected if necessary.	<b>February 2021 Update:</b> None
	1.2 Management together with the staff should discuss and implement a consistent methodology in computing the prorated COLA amount for Tier 2 members.			
	1.3 After agreeing on the best approach to calculate the prorated COLA figures, benefits division staff should revisit the COLA calculation for Tier 2 retirees and make changes as applicable.			
<b>Finding #2:</b> There were four samples (Federated: 2; Police and Fire: 2) where the first pension checks were released later than the usual issuance time. Furthermore, the length of time to issue the first retirement check takes one to two months after the retirement date month.	2.1 Improve the planning process for anticipated operation closures. The benefits department should allot time for expected disruption in operations so that retirement payments can still be made on time.	Complete	<b>Agree:</b> During the audit, two of the five Benefit analysts, who were responsible for processing new retirements, retired. This staff shortage contributed to the delay in setups. In addition, ORS was running in parallel mode due to the implementation of the new Pension Administration System (PAS), which resulted in an additional workload for Benefits staff. Parallel mode means keeping 2 systems updated in real time to aid testing of the new PAS system. This overhead did cause tasks to take longer than usual. The added burden of the Parallel systems resulted in an extra	<b>February 2021 Update:</b> The Benefits group has revised the ORS department calendar that is used to set deadlines to allow the necessary time to collect and process the information and documentation needed. The new deadlines are distributed throughout the month thereby reducing the possibility of unexpected absences impacting the work flow and meeting deadlines.

**Exhibit 5: Recommendation Status – Audit of Service Retirement Applications – (Benefits Division, Issued May 21, 2020)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
<b>Finding #2:</b> (Continued from previous page)			workload for the already short-staffed Benefits group.	
	2.2 Enhance the communication of the application process timeline to plan members.	In Process	<b>Agree:</b> The Benefits group has included a statement on several areas of the ORS website encouraging members to submit their application at least 2-3 months before the retirement effective date to aid the timely processing and setup of benefits claims. In addition, the ORS website is undergoing a redesign that will include Board Meetings and Agenda information, and display pay date information, including the next direct deposit date.	<b>February 2021 Update:</b> Once the ORS website update is complete, the ORS will produce an updated retirement tutorial presentation that will also include the timeframe information. The new website will incorporate this information in several areas. The Retirement Connection newsletter also featured an article with information related to choosing a Retirement Date for members. This article will be repeated periodically in future editions.
<b>Finding #3:</b> In inspecting the retirement application files, there was one sample with missing set-up documents that could not be located in either the physical or electronic data.	3. Perform scanning procedures in a timely manner (whenever possible, as soon as the retirement application is processed and completed).	Complete	<b>Agree:</b> Benefits staff are currently scanning mail as it is processed, ensuring that files are stored electronically on the network, and are backed up nightly.	<b>February 2021 Update:</b> None
<b>Finding #4:</b> The group counseling survey is not tailored to address specific areas to properly gauge the quality of service rendered by the department. The questionnaire is limited in scope.	4. Expand the current survey questionnaire to include customer satisfaction metrics on timeliness, reliability, relevance, accuracy, communication, service quality, etc. Widen the scope to include members' experience all throughout the retirement application process.	In Process	<b>Agree:</b> The Board has been considering adopting metrics for the evaluation of the CEO and CIO, part of the proposed metrics involves conducting a Group Counseling Survey that is to be provided by the Board Governance vendor, Cortex. The recommendations included in this audit report will be provided to Cortex	<b>February 2021 Update:</b> The recommendation has been provided to Cortex for consideration to include in the Group Counseling Survey.  Estimated completion date: July 2021.

**Exhibit 5: Recommendation Status – Audit of Service Retirement Applications – (Benefits Division, Issued May 21, 2020)**

<b>Finding</b>	<b>Recommendation</b>	<b>Status</b>	<b>Original Response</b>	<b>Updates</b>
			for consideration to include in the Group Counseling Survey	
<b>Finding #5:</b> An option to receive the payment advice for pension checks is not included in any of the standard files required for the retirement application.	5. Create a standard file that will incorporate the payment advice option. This can be done separately, or it can be included as part of the direct deposit authorization form which the department currently has.	Complete	<b>Agree:</b> The Benefits group has implemented this recommendation, by Including on the direct deposit authorization form a checkbox for a member to request their remittance stub/payment advice in the mail.	<b>February 2021 Update:</b> None