

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**REVIEW OF CONTROLS
OVER PENSION PAYMENTS**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 4, 2006

Natwar M. Gandhi, Ph.D.
Chief Financial Officer
Office of the Chief Financial Officer
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 203
Washington, D.C. 20004

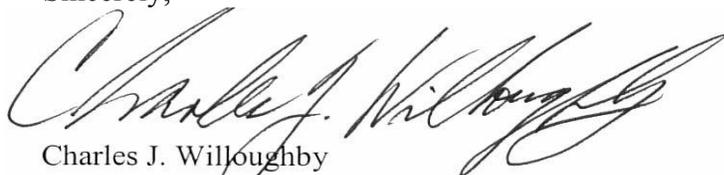
Dear Dr. Gandhi:

Enclosed is our final audit report summarizing the results of the Office of the Inspector General's (OIG) Review of Controls Over Pension Payments (OIG No. 05-1-01MA).

Our report contains one three-part recommendation for necessary action to correct the described deficiencies. We received a response to the draft report from the Office of the Chief Financial Officer (OCFO) on March 28, 2006. The OCFO's response fully addressed the recommendation, and we consider the actions taken and/or planned to be responsive. The full text of the OCFO's response is included at Exhibit B.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

CJW/mg

cc: See Distribution List

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Dr. Gandhi
Final Report - OIG No. 05-1-01MA
May 4, 2006
Page 3 of 3

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REVIEW OF CONTROLS OVER PENSION PAYMENTS

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE DIGEST.....	i
INTRODUCTION.....	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
FINDING AND RECOMMENDATIONS.....	3
FINDING: PENSION PAYMENT DISBURSEMENTS	3
EXHIBITS	
EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT.....	7
EXHIBIT B: MANAGEMENT RESPONSE	8

EXECUTIVE DIGEST

OVERVIEW

This report summarizes the District of Columbia Office of the Inspector General's (OIG) audit of controls over pension payments made to police officers, firefighters, and teachers of the District of Columbia Public Schools. The audit was part of our annual plan and was conducted to determine whether the Office of Pay and Retirement Services (OPRS) had adequate internal controls in place to prevent and/or detect improper pension and survivorship benefit payments.

The retirement program for police officers and firefighters, and the Teachers Retirement Plan are primarily administered by OPRS, which is a sub-divisional office under the Office of the Chief Financial Officer (OCFO). We want to acknowledge that OPRS has improved internal controls within the pension payment system since we last reviewed the system. In our prior report, "Review of Discrepancies Identified with DC Employees' Social Security Numbers," dated October 24, 1997, we reported that there were weak internal controls to detect employees on the payroll who were deceased or who were identified by invalid social security numbers.

CONCLUSIONS

The OPRS has made notable improvements in internal controls over the detection and removal of deceased annuitants from the District's pension payment system. However, our audit disclosed that OPRS could make additional improvements to its internal control system to further reduce the time it takes to stop pension payments to deceased annuitants (retired police officers, firefighters, and teachers and their survivors). Specifically, our review of pension payments made to 68 annuitants during calendar years (CYs) 2003 and 2004 revealed that OPRS continued to issue monthly payments to 10 of the 68 annuitants. The 10 annuitants were deceased.

Although OPRS had "informal" procedures, we found a need for OPRS to formalize and strengthen its procedures for: (1) detecting ineligible annuitants; (2) detecting and reporting the death of annuitants; (3) discontinuing pension payments to annuitants after receiving notice of death; and (4) recouping overpayments.

SUMMARY OF RECOMMENDATIONS

We directed one three-part recommendation to the Chief Financial Officer that we believe will improve the pension payment process. The recommendation, in part, centers on formalizing and strengthening written policies and procedures that cover:

- detecting the death of annuitants;

EXECUTIVE DIGEST

- notifying a deceased annuitant's next-of-kin when erroneous payments are made; and
- recovery of any erroneous payments made to deceased or ineligible annuitants.

A summary of potential benefits resulting from this audit is included at Exhibit A.

CORRECTIVE ACTIONS

On March 28, 2006, OCFO provided a written response to our draft report. OCFO's response fully addressed our one three-part recommendation, and we consider the actions taken and/or planned to be responsive to our recommendation. The full text of the OCFO's response is included at Exhibit B.

INTRODUCTION

BACKGROUND

The District's Retirement Plan system is comprised chiefly of four major retirement plans.¹ The four retirement plans include: the Pension Trust Funds for police officers, firefighters, and teachers; the Define Contribution Pension Plan 401(a); the Deferred Compensation Plan 457; and the Civil Service Retirement Plan. Our review covered the Pension Trust Funds for police officers, firefighters, and teachers.

Establishment of Pension Trust Funds. In 1979, the U.S. Congress established the District of Columbia Police Officers, Firefighters, and Teachers' Pension Trust Funds through enactment of the District of Columbia Retirement Reform Act (Reform Act), Pub. L. No. 96-122 (codified as amended at D.C. Code §§ 1-701–753 (2001)). These funds provide assets to pay pension benefits to all three groups of District employees.

Pension Plan Enrollment and Funding. Police officers, firefighters, and teachers are automatically enrolled in the pension trust funds when they begin their employment with the District. The enrollees must contribute a portion of their salary to help pay for their benefits. In addition, the U.S. Department of the Treasury and the District government share the cost for providing the benefits. The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act), Title XI of the Balanced Budget Act of 1997 (Pub. L. No. 105-33), transferred payment responsibility for the pensions of District police officers, firefighters, and teachers to the federal government for benefits that accrued on or before June 1997. The District government is responsible for providing benefits accruing after June 1997.

Pension Trust Fund Administration. The OPRS is primarily responsible for administering the pension trust funds for police officers, firefighters, and teachers. Other District agencies are also involved in administering the funds.

An adjudicating board in the D.C. Office of Personnel is responsible for determining if police officers and firefighters are eligible to receive retirement benefits. This adjudication board establishes eligibility for regular and disability pensions, including the determination of an applicant's degree of impairment and the percentage of disability. Similarly, the Board of Education makes eligibility determinations with respect to teachers' benefits.

Once pension eligibility determinations have been made by the applicable adjudicating authority, OPRS is responsible for calculating the pension benefit amount, adding the annuitant to the retirement rolls, and thereafter issuing monthly payments until the annuitant dies or becomes ineligible. OPRS also maintains the pension benefit records.

¹There are other retirement plans available to employees in the District's independent agencies.

INTRODUCTION

The D.C. Retirement Board (Board), which is composed of 12 members, is responsible for investing the pension funds in several investment mediums, such as domestic equity (U.S. stocks), international equity (non-U.S. stocks), domestic fixed income, private equity, and real estate. The Board uses the investment earnings to pay for its administrative expenses.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether OPRS had adequate internal controls in place to prevent and/or detect improper pension and survivorship benefit payments.

To accomplish our objective, we held interviews and discussions with OPRS management and administrative staff to gain a general understanding of the District's pension payment system and existing internal controls. To test whether pension benefit system controls were effective, we selected all 68 annuitants (retired police officers, firefighters, teachers, or their survivors) who had been removed from the District's pension system in CYs 2003 and 2004.

We reviewed the case files for each of the 68 annuitants and searched the Pensioners' Automated Payroll System (PAPS) to determine whether pension payments were issued after death. We validated the reliability of the data obtained from the PAPS. We also reviewed other reports and supporting documents that were relevant to the audit.

In addition, we visited and conducted interviews with a neighboring city for comparisons and to better evaluate the District's pension payment system. The city of Philadelphia, Office of the Controller, conducted a similar audit on its retirement payment system in CY 2002. That audit disclosed that the city's Board of Pensions and Retirement may have made as much as \$2 million in improper payments to 119 deceased beneficiaries.

On January 9, 2006, we met with OPRS officials to discuss the finding and recommendations contained in our draft report. Based on that meeting, we revised language contained in our final report.

Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

FINDING AND RECOMMENDATIONS

FINDING: PENSION PAYMENT DISBURSEMENTS

SYNOPSIS

The OPRS has made notable improvements in internal controls over the detection and removal of deceased annuitants from the District's pension payment system. However, our audit disclosed that OPRS could make additional improvements to its internal control system to further reduce the time it takes to stop pension payments to deceased annuitants (retired police officers, firefighters, and teachers and their survivors). Specifically, our review of pension payments made to 68 annuitants during CYs 2003 and 2004 revealed that OPRS continued to issue monthly payments to 10 of the 68 annuitants although the 10 annuitants had died.

Although OPRS had "informal" procedures, we found a need for OPRS to formalize and strengthen its procedures for: (1) detecting ineligible annuitants; (2) detecting and reporting the death of annuitants; (3) discontinuing pension payments to annuitants after receiving notice of death; and (4) recouping overpayments.

DISCUSSION

We selected and reviewed the payment history of the 68 annuitants who were terminated from the pension payroll system during CYs 2003-2004 to determine whether OPRS promptly stopped annuity payments made upon death or disqualification.

Our review revealed that OPRS made overpayments to 10 of the 68 terminated annuitants, amounting to \$41,468 (net amount).² These payments continued after the annuitant's death.

The District of Columbia Municipal Regulations (DCMR), Title 6, Chapter 29, § 2904, provides, in part:

2904.1. Any indebtedness to the government by an employee or former employee . . . , may be collected in monthly installments or at officially established regular pay intervals, by deduction in reasonable amounts as provided in this section.

2904.2. Deductions may be made from any wages, salary, allowances, compensation, remuneration for services, or other authorized pay,

²The gross amount of the overpayments totaled \$50,004. The difference between the gross and net amounts is attributed to various benefit deductions (such as health insurance, taxes, etc.).

FINDING AND RECOMMENDATIONS

including but not limited to back pay, severance pay, and lump sum leave payments.

Further, D.C. Code § 1-629.02 (2001) provides that “[w]hen the Mayor determines that an employee or former employee of the District is indebted to the District of Columbia government . . . because of an erroneous payment made to or on behalf of the employee, the Mayor may, after 30 days notice to the employee, collect the amount of the indebtedness”

OPRS currently has informal written policies and procedures for detecting and removing deceased annuitants from the pension payroll system. However, OPRS does use a contractor to conduct monthly verification of annuitants information listed on the District’s pension payroll. The contractor validates the District’s pension payroll by matching annuitant’s names against a database, which is regularly updated with recent recorded deaths compiled by the Social Security Administration, other federal government sources, and the vital statistics departments of many states. Upon completion of the validation process, the contractor provides OPRS with a monthly report that lists annuitants who are most likely to be deceased. In addition to the monthly verification of decedent checks, OPRS stated that they obtain knowledge of deaths by regular telephone call-ins; reviewing newspaper obituary sections; and sending out “Proof of Life” letters.³

Results of our Tests. We found cases where annuitants had died several months before OPRS received any knowledge of the deaths. Specifically, we found 10 cases where recently deceased annuitants were not timely terminated from the pension payroll system even after OPRS received documented death notifications. For the 10 cases, we found that it took between 40 to 122 days after the annuitant’s death before he/she was removed from the PAPS.

For example, it took more than 74 days before 1 annuitant was removed from the pension payroll after OPRS received the death certificate. In another case, OPRS was notified of an annuitant’s death 5 days after the individual’s passing, yet took 64 days to remove the annuitant from the system. Additionally, one deceased annuitant continued to be paid for more than 51 days after OPRS received the death notification. In that case, OPRS had been notified of the annuitant’s death just 1 day after the annuitant’s death.

Although there were overpayments made amounting to \$41,468, collection efforts by OPRS resulted in the recovery of the entire \$41,468, with recoveries made by either electronic payment reversals or direct requests to the survivors of the annuitants.

³These letters are sent to annuities requesting them to (1) verify (by signing and certifying enclosed forms) that they are receiving payments and (2) return the letters to OPRS.

FINDING AND RECOMMENDATIONS

We acknowledge that there is an inherent risk involved when preventing annuitant overpayments is predicated on the timely notification of an annuitant's death and timely removal of deceased annuitants from the District's pay and retirement database before the next payroll is processed. However, the inability to detect information regarding the death of annuitants in a reasonable time frame could result in substantial overpayments and difficulty recovering overpayments from survivors.

We believe that OPRS should formalize and strengthen policies and procedures to enhance the current review process for the timely detection and removal of deceased annuitants and ineligible decedents from the District's pension payroll, thereby lessening the risks of overpayment.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer:

1. Formalize and strengthen written policies and procedures for:
 - a. Detecting and reporting the death of annuitants and terminating those annuitants from the District's pay and retirement database;
 - b. Recovering erroneous payments made to deceased or ineligible annuitants;
and
 - c. Notifying deceased annuitant's next-of-kin when erroneous payments are made in order to properly recoup the payments.

MANAGEMENT RESPONSE

OCFO accepted our recommendation. OCFO stated OPRS will include our recommendation as part of its development plan, and OPRS will document mission critical policies and procedures. The full text of the OCFO response is at Exhibit B.

OIG COMMENTS

We consider OCFO's actions to be responsive to our recommendation. However, in its response, OCFO stated OPRS cannot terminate annuitants from the payroll without sufficient supporting documentation, and 74 days would be considered a reasonable and customary period to process a death notification. OCFO also stated that all additions and/or changes affecting the current payroll cycle must be submitted prior to the 5th of the month. We agree OPRS should not terminate annuitants without sufficient supporting documentation; however, we disagree that 74 days is considered reasonable. In the example used in our report, the annuitant died on May 3, 2003, and OPRS received his death certificate on

FINDING AND RECOMMENDATIONS

June 20, 2003. OPRS paid the annuitant in June and July 2003, as well as in August and September 2003. We acknowledge that OPRS did not receive the death notification in time to prevent the June and July 2003 payments. However, OPRS should not have made the August and September 2003 payments since OPRS had sufficient supporting documentation on June 20, 2003.

In the introduction section, OCFO also commented that OPRS no longer handles benefits administration for District police officers, firefighters, and teachers, effective October 1, 2005. OPRS currently provides administration functions only for the United States Park Police (USPP) and the United States Secret Services (USSS). Although OPRS no longer provides services for District police officers, firefighters, and teachers, we believe OPRS can improve its operations for providing services to the USPP and USSS by formalizing and strengthening written policies and procedures.

**EXHIBIT A - SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendation	Description of Benefit	Amount and/or Type of Monetary Benefit	Status⁴
1a	Internal Control and Compliance. Formalize and strengthen written policies and procedures for detecting and reporting deceased annuitants, and terminating those annuitants from the District's pay and retirement database.	Unquantifiable	Open
1b	Internal Control and Compliance. Formalize and strengthen written policies and procedures for the recovery of erroneous payments made to deceased or ineligible annuitants.	Unquantifiable	Open
1c	Internal Control and Compliance. Formalize and strengthen written policies and procedures for notifying deceased annuitants' next-of-kin when erroneous payments are made in order to properly recoup the payments.	Unquantifiable	Open

⁴This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG agree on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B - MANAGEMENT RESPONSE

Government of the District of Columbia
Office of the Chief Financial Officer



06 APR -5 PM 3:14

Natwar M. Gandhi
Chief Financial Officer

MAR 28 2006
Charles J. Willoughby
Inspector General
717-14th St., NW
Washington, DC 20005

Dear Mr. Willoughby:

Re: Audit of the Review of Controls over Pension Payments (OIG No. 05-1-01MA)

Thank you for the opportunity to discuss and respond to the findings and recommendations in the Office of the Inspector General's draft audit report on the Review of Controls over Pension Payments. Our response to the issues raised in the draft audit is attached. We plan to implement the recommendations as soon as feasible to enhance existing documentation and practices.

If you have any additional questions, please contact Judy Banks, Director of Pay and Retirement Services, at (202) 727-5972.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer

Attachment

cc: Chief of Staff
Director of Operations
Anthony F. Pompa, Deputy Chief Financial Officer, OFOS
Associate Controller, OFOS
Judy Banks, Director, OPRS
Sebastian Lorigo, Executive Director, OIO
Mohamad Yusuff, Director, Internal Audit, OIO

EXHIBIT B - MANAGEMENT RESPONSE

Audit Opinion Comments
OIG No. 05-1-01MA

Office of the Chief Financial Officer
Office of Pay & Retirement Services

Before we address your findings, we would like to state the following regarding our current operating practices:

INTRODUCTION

The Office of Pay & Retirement Services (OPRS) currently provides benefits administration for eligible annuitants of the United State Park Police (USPP) and the United State Secret Service (USSS) under the DC Metropolitan Police and Firefighters' retirement plan. OPRS provided benefits administration for eligible annuitants of the DC Metropolitan Police and Firefighters retirement plan and the DC Public School system retirement plan through October 1, 2005. As of October 1, 2005, the District of Columbia Retirement Board (DCRB) provides benefits administration for Police, Fire, and Teachers' retirement plans.

While the draft audit report summarizes results of the Office of the Inspector General's (OIG) Review of Controls Over Pension Payments (OIG No. 05-1-01-MA), the report is applicable to plans no longer administered by OPRS. The OPRS acknowledges and accepts the responsibility for preparing responses to the findings.

Please note that the current practices outlined below provide an overview of procedures as they relate to administering benefits on behalf of United States Park Police and United States Secret Service. These practices are however, reflective of internal controls that were in place during OPRS' tenure as benefits administrator for Teachers', Fire, and Police retirement plans.

CURRENT PRACTICES

OPRS currently follows uniform policies and procedures to process death cases. Below is a brief description of the policy and/or procedure associated with each of the four areas identified:

1. Detecting ineligible annuitants

OPRS currently follows policies and procedures to detect ineligible annuitants including, but not limited to system tickler reports for student certification, information provided by third parties including, PBI reports, research on behalf of OPRS staff members, and cooperation with internal and external stakeholders. These policies and procedures have been refined as required by law.

2. Detecting and reporting the death of annuitants

OPRS utilizes PBI reports provided by the Social Security Administration (SSA) and consults with stakeholders, including the United States Park Police (USPP) and United States Secret Service (USSS) personnel divisions as well as their respective retiree associations to procure death notifications. Survivors of deceased annuitants primarily provide death notifications. Past practice has indicated that survivors or representatives of the deceased's estate provide over 90% of all notifications. In addition, pension specialists frequently review and research local obituary sections including sections in both The Washington Post as well as The Washington Times. OPRS staff also utilizes technical resources such as the Internet to gather pertinent information.

EXHIBIT B - MANAGEMENT RESPONSE

Audit Opinion Comments
OIG No. 05-1-01MA

Office of the Chief Financial Officer
Office of Pay & Retirement Services

3. Discontinuing pension payments to annuitants after receiving notice of death

Currently, OPRS abides by past practices to discontinue payments immediately after receiving death notifications. This process includes preparing and securing supporting documentation to verify accuracy of the notification. In addition, specialists prepare and submit documentation for discontinuation of payments in the PAPS system on a monthly basis. As part of the current practice, specialists establish contact with survivors and or representatives in writing and via telephone to qualify and verify accuracy of death notifications.

4. Recouping overpayments

Collection of overpayments is a component of death notification. Specialists identify overpayments and contact survivors and financial institutions to secure payments made in error. OPRS has also implemented an internal procedure that requires specialists to secure overpayments PRIOR to processing survivor benefits. This provides an added incentive for parties involved to expeditiously refund overpayments. Additionally, in the event that we are unable to procure the refund through electronic or manual means, we will withhold any overpayments from survivor benefits due. It should be noted that through the OCFO's Office of Integrity and Oversight, OPRS has also engaged the OIG in debt collection efforts. To date, OPRS has experienced moderate success as a result of this collaborative effort.

PROPOSED ACTIONS

As part of a larger effort to document mission critical policies and procedures, OPRS will include OIG's recommendations as part of our development plan. The Pension Benefits Officer and subject matter experts (SMEs) within the department including the Pension Research Specialist and Pension Financial Manager will document mission critical policies and procedures. These activities will include the establishment and review of best practices as they pertain to operational functions.

OPRS REPORT COMMENTS

OPRS would like to address the following specific issues as reported in the Office of the Inspector General's (OIG) Review of Controls Over Pension Payments (OIG No. 05-1-01-MA):

- **Discussion** – OPRS' interpretation of the use of the word "promptly" is defined as the ability to ascertain the demise of an annuitant utilizing the detection methods as described on page 1 of this document.
- **Results of Tests** – Collection efforts should be noted as a percentage of total debt outstanding. Accordingly, OPRS' 100% rate of success more accurately reflects the efficiency and accuracy of OPRS current collection procedures.

More specifically, the number of days it took to remove annuitants from the rolls is

EXHIBIT B - MANAGEMENT RESPONSE

Audit Opinion Comments
OIG No. 05-1-01MA

Office of the Chief Financial Officer
Office of Pay & Retirement Services

dependent upon established pension payroll processing cycles. There are specific deadlines associated with each processing period. For example, all additions and/or changes affecting the current payroll cycle must be submitted PRIOR to the 5th of each month. Death notifications received after the deadline would be processed the following pay period. In addition, days are not an accurate measure of time with regard to removing annuitants from the payroll. Annuitants are paid on a monthly basis. Therefore, the example given of 74 days, equivalent to two pay periods, would be considered a reasonable and customary period to process a death notification.

It should also be noted that sufficient documentation was present during the course of the audit to establish a pattern of practice associated with termination and collection of outstanding payments. Each file reviewed contained a death notification, supporting financial documentation verifying receipt of repayments (ACH reversals or copies of returned checks), and PAPS Change Transmittal Sheets submitted as part of the termination process.

Finally, we would like to note that OPRS cannot, as matter of ethical and fiduciary responsibility, terminate annuitants from the payroll without sufficient supporting documentation to confirm death notifications. Although we use a variety of sources to obtain notifications, we ultimately must conduct due diligence with respect to the information reported to our office. If fulfilling this requirement causes a delay in terminating the reported notification, we feel that it is an acceptable and mitigated risk in light of the circumstances.

ACCEPTANCE OF RECOMMENDATIONS

OPRS accepts the recommendations as proposed in the audit report. OPRS will utilize the recommendations to enhance existing documentation and practices.