

Summary of Financial Statement Audit Management Letter Comments  
Current Year Report  
As of September 30, 2021

## **Audit Management Letter Comments for the Year Ended 06/30/21**

### **Fiscal Year 2020-21**

#### **Observation #1: Segregation of Duties Related to Oversight of Dormant Accounts**

BDO We observed a lack of segregation of duties related to the oversight of the dormant accounts. Specifically, payments issued from dormant accounts can be requested and approved by the same individual. Additionally, the Warrant Administration team, who is responsible for processing distribution payments, can also make updates to the direct deposit information in retiree accounts during the payment reissuance process causing a segregation of duties conflict.

We recommend payments issued from dormant accounts be requested and approved by two different individuals. Furthermore, the team responsible for processing distribution payments should not also be responsible for making changes to direct deposit information in retiree accounts.

**Retirement Benefit Services Division Current Update:** RESOLVED. Pending review by financial statement auditor. The planned myCalPERS system updates and segregation of duties are complete. On December 4, 2021, updates were deployed in the myCalPERS system to prevent the same user from requesting and approving a reissue payment. In addition, the Retirement Benefit Services Division Assistant Division Chief, or the Division Chief, continue to perform a detailed review, and approval, of all dormant account reissued payments. The Forms Administration Unit continues to make the direct deposit updates in myCalPERS when needed during the reissuance process. Further assessment and analysis are in progress to formally update any security roles in myCalPERS that may be needed.

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### Observation #2: Death Benefit Overpayment Receivables

Death benefit overpayment receivables represent amounts owed to CalPERS due to payments made to members or beneficiaries who have since deceased. During the September 14, 2021 Risk and Audit Committee meeting, the CalPERS Office of Audit Services presented its findings over the effectiveness of controls over the death benefit overpayment receivables. The report included as Agenda Item 6a Attachment 2 to the September 14, 2021 Risk and Audit Committee meeting identified the following:

- Deaths were not consistently identified timely to minimize the issuance of benefit payments and related receivables.
- Death benefit overpayment receivables were not consistently recorded within 30 days after the identification of death.
- Certain lump sum survivor benefits were issued without first recovering the death benefit overpayment receivables owed to CalPERS.
- Adequate attempts were not made to collect death benefit overpayment receivables from survivors, or, if available, the decedent's estate.
- Death benefit overpayment receivables were not reviewed for timely write-off.

**Disability & Survivor Benefits Division (DSBD) Current Update:** RESOLVED. Pending review by financial statement auditor. The following are corrective actions implemented by DSBD as of December 31, 2021 for each of the observations noted above:

- DSBD implemented the supervisory review of the Berwyn Report as described in their procedures to ensure that Berwyn identified deaths are recorded timely and accurately.
- DSBD developed a process for regularly generating the death fail report weekly and a quality assurance for reviewing the report.
- DSBD has submitted the service request to Information Technology Services Branch (ITSB) to put an automated control into myCalPERS to prevent payments from being issued if there is an open receivable.
- DSBD submitted the service request to ITSB to make modifications to myCalPERS for the collections process. DSBD is now working with ITSB to make the modifications. The change benefit assessment form describes the process and DSBD will update the formal procedures when the system modifications are made.
- DSBD collaborated with the financial office to develop a process for writing off death benefit overpayment receivables appropriately and timely in accordance with the State Administrative Manual (SAM) 8776.6. DSBD maintains evidence of the balances being reduced through the write-off process.

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### Observation #3: Review of Access Rights to Actuarial Valuation Systems (AVS)

BDO observed that four members of the Actuarial Office (ACTO) have security administrative access to the Actuarial Valuation System (AVS). The security administrative access role provides users with the ability to add new users, remove users and edit user access.

We observed the users with security administrative access could change their own access levels or to switch access rights levels back and forth. This results in a segregation of duties conflict because it provides the individual with the potential ability to prepare and review an actuarial valuation report. Although CalPERS has a process to audit the user access logs every 6 months, it is being performed by a member of ACTO who has security administrative access, which also results in a segregation of duties conflict. Additionally, no audit is being performed of the database user access log to check for and investigate anomalies.

We recommend management remove the security administrative access role from active AVS users and have IT take over the user access provisioning. Additionally, it is recommended that the user access logs be audited by an individual who does not have security administrative access rights to AVS.

**ACTO Current Update:** RESOLVED. Pending review by financial statement auditor. The security administrative access role was removed from active ACTO AVS users in October 2021. All requests to modify user access are being completed through the ServiceNow system and fulfilled by the IT team. Upon further consideration, since ACTO team members no longer have security administrative access rights to AVS, ACTO has retained the responsibility of the semi-annual review of the user access logs. This review was last completed in December 2021.