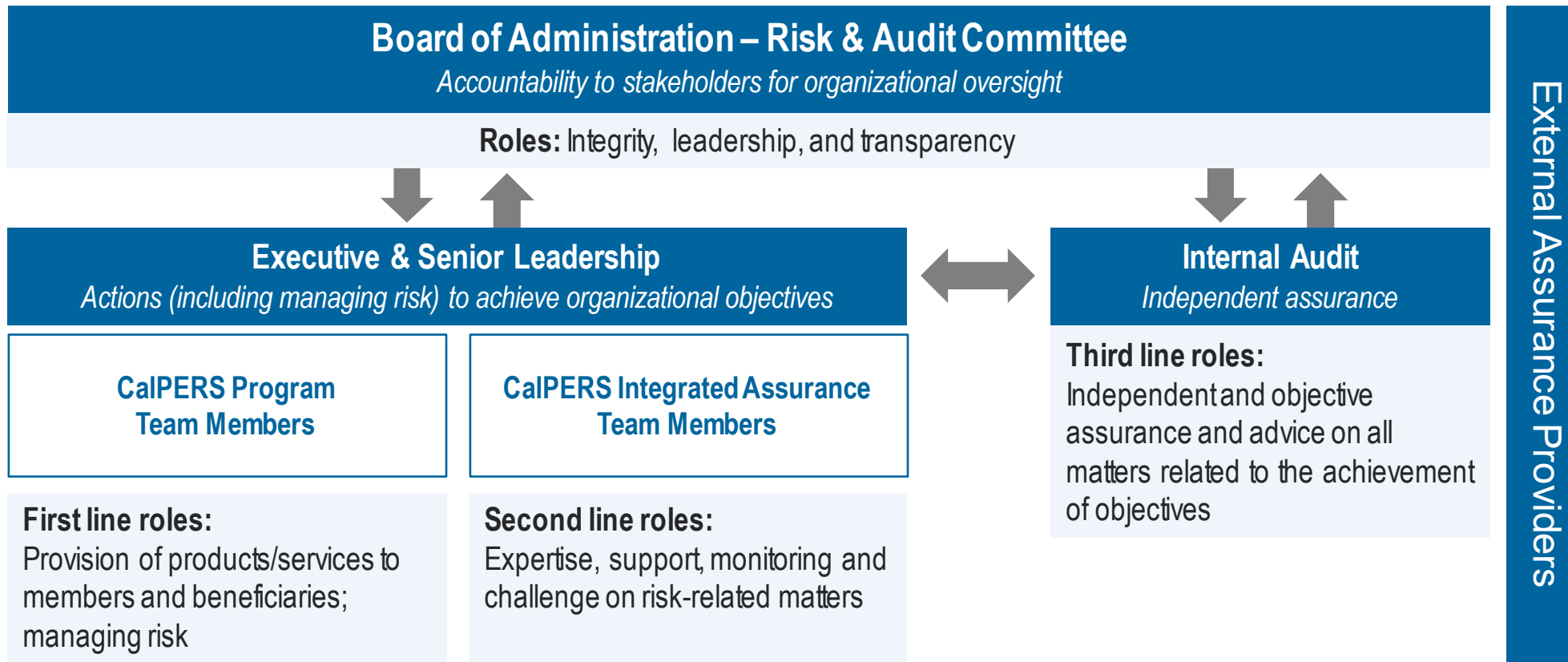


Review of Death Benefit Overpayment Receivables

Risk and Audit Committee Meeting
September 14, 2021

Agenda

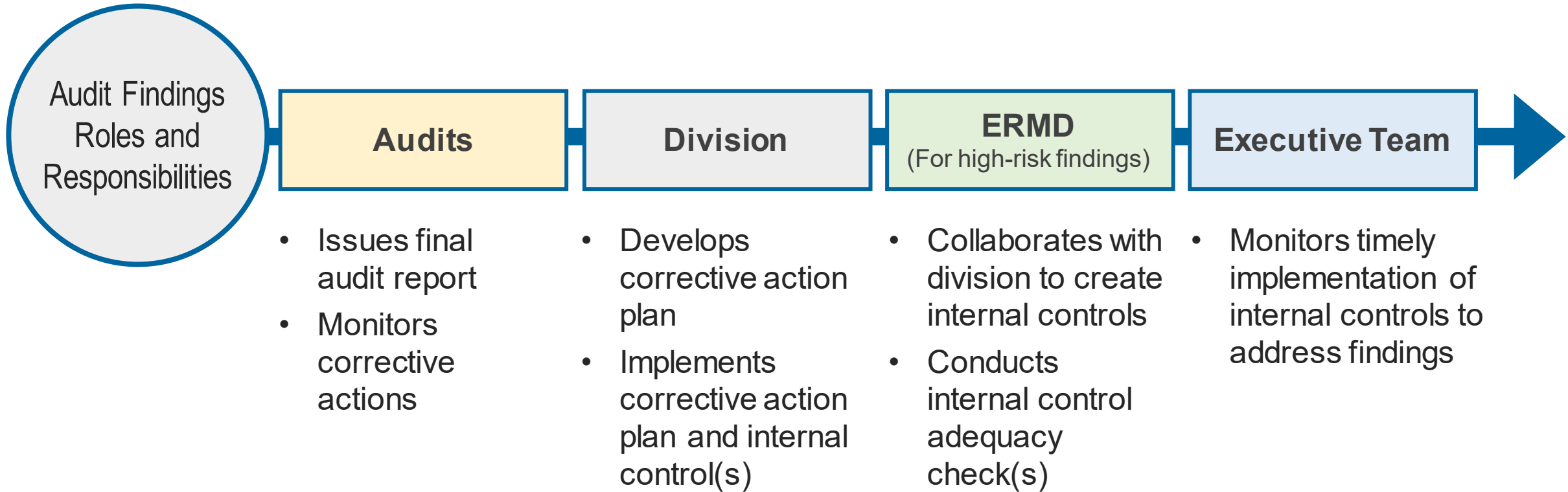
- CalPERS Integrated Assurance Model
- Audit Process
- Audit Observations
- Survivor Benefits Team Overview
- Current State and Corrective Actions
- Next Steps



KEY: ↑ Accountability, reporting | ↓ Delegation, direction, resources, oversight | ↔ Alignment, communication, coordination, collaboration

Source: Institute of Internal Auditors

Audit Process



Audit Observations

1. Disability and Survivor Benefits Division (DSBD) did not consistently identify deaths timely to minimize the issuance of benefit payments and related receivables
2. DSBD did not consistently record death benefit overpayment receivables (receivables) within 30 days after identification of death
3. DSBD issued certain lump sum survivor benefits without first recovering the receivables owed to the California Public Employees' Retirement System (CalPERS)
4. DSBD did not adequately attempt to collect receivables from survivors, or, if available, the decedent's estate
5. DSBD did not review receivables for timely write-off

Survivor Benefits Team

- Determines benefits eligibility for pre-retirement (active member) and post-retirement (retired member) deaths
- Processes lump sum and ongoing monthly payments to beneficiaries and survivors of deceased CalPERS annuitants
 - Approximately 56 team members dedicated to processing
 - Additional team members dedicated to training, support and exceptional processing

Survivor Benefits Team Overview, continued

Annual average death reports received: 24,195

FY 2020-21 statistics:

- 26,366 death reports received
- 22,532 death benefit cases paid
- 46,702 benefit streams issued
- Survivor ongoing monthly allowances paid within 45 days of death notification: 95%
- 4,496 death benefit estimates completed
- 28,852 inquiries resolved

Observation 1: Untimely Identification of Deaths

Current State:

- Reduced volume of Social Security Administration death records since 2011
- Contracted with vendor for death verification services to bridge gap
 - 75% of deaths reported personally; 25% through death match vendor

Processing Time	Personal Reports	Vendor Reports
Record death	1 day	7-10 days
Average notification after death (overall 21 days)	14 days	46 days

- Instituted benefit verification process in 2019

Observation 1: Untimely Identification of Deaths, continued

Corrective Actions:

- Streamlined death match review process
- Implemented death match process supervisory review
- Identified benefit verification process risk factors
- Working with three additional death match vendors to supplement current process

Observation 2: Untimely Death Benefit Overpayment Recording

Current State:

- Death reports entered into myCalPERS terminate benefit streams
- System designed to record a receivable on the decedent's account for benefits issued after the date of death
- Rare instances of system not functioning as designed
 - Benefit stream not terminated
 - Receivable not recorded

Observation 2: Untimely Death Benefit Overpayment Recording, continued

Corrective Actions:

- Improved Death Failed Report
 - Includes all instances when the benefit stream is not terminated as a result of a death report
- Implemented weekly Death Failed Report review process
- Identified a system change to terminate benefit streams on all death reports entered into myCalPERS, accounting for those rare instances that were identified

Observation 3: Lack of Collections Prior to Issuance of Lump Sum Survivor Benefits

Current State:

- Payments issued by direct deposit or warrant after the date of death of the benefit recipient shall be refunded to the retirement system (Government Code § 21267 and 21510)
- Attempt to recoup overpayments from financial institutions at the time the death is reported via bank reclamation letters
- Attempt to collect overpayments from beneficiaries and survivors when processing death benefit claims

Observation 3: Lack of Collections Prior to Issuance of Lump Sum Survivor Benefits, continued

Corrective Actions:

- Updated procedures to include recouping overpayments from benefits payable
- Developed monthly query to detect payments made when receivable has not been recouped
- Identified a system change to prevent payment when:
 - Receivable is recorded on account, and
 - Amount is not deducted

Observation 4: Inadequate Collections of Death Benefit Overpayment Receivables

Current State:

- Workload prioritized based on CalPERS mission, Key Performance Indicators and government code
- Email outreach to annuitants regarding filing beneficiary designations
- Attempt to recoup overpayments from:
 - Financial institutions at the time death is reported
 - Beneficiaries and survivors when processing death benefit claims
- FY 2019-20: 33,488 death benefit receivables totaling \$155,467,749
 - 31,195 (93%) totaling \$126,718,374 (82%) recovered or cleared to date

Observation 4: Inadequate Collections of Death Benefit Overpayment Receivables, continued

Corrective Actions:

- Seeking legislation to strengthen overpayment collections by identifying all benefits payable as a source to collect
- Partnering with Policy Research & Data Analytics team to identify
 - Industry standards
 - Death benefit claim processing efficiencies
- Developing a system change to include invoice language in condolence package and reclamation letters
- Proactively targeting larger receivables where it is difficult to identify the liable party and ultimately recover
 - Financial Reporting & Accounting Services Division and Legal Office collaboration

Observation 5: Untimely Death Benefit Overpayment Receivable Write-Offs

Current State:

- Workload prioritized based on CalPERS mission, Key Performance Indicators and government code
- 10-year statute of limitations for collection of receivables resulting from payments issued after death

Observation 5: Untimely Death Benefit Overpayment Receivable Write-Offs, continued

Corrective Actions:

- Implemented virtual folder technology for routing and tracking recommendations for write-offs sent to the Financial Office
- Dedicated a team to address negative receivable inventory
 - 801 claims totaling \$980,204.06 have been processed
- Discharged 236 receivables with balances under \$500
 - Not cost effective to pursue or statute of limitations
- Discharged 52 receivables with balances over \$500 (statute of limitations)

Next Steps

- Finalize contracts with additional death match vendors to improve timely detection of unreported deaths
- Continue implementing 17 actions documented in review response to improve control and compliance processes
- Work with Office of Audit Services to monitor the effectiveness of controls and close observations