



Office of Audit Services
Memorandum

June 3, 2021

Job Number: IA19-001

~~Confidential: Attorney-Client Privilege and
Attorney Work Product~~

To: Marcie Frost
Chief Executive Officer
Executive Office

Via: Matthew G. Jacobs
General Counsel
Legal Office

Original signed by Beliz Chappuie, Chief
From: Beliz Chappuie, Chief
Office of Audit Services

Subject: Review of Death Benefit Overpayment Receivables

We have completed the Review of Death Benefit Overpayment Receivables as approved in the Office of Audit Services Audit Plan for Fiscal Year 2019-20. The objective of this review was to evaluate the effectiveness of controls over the death benefit overpayment receivables. We conducted this review in accordance with the International Standards for the Professional Practice of Internal Auditing.

We discussed our observations and recommendations with the appropriate Death and Survivor Benefits Division (DSBD) personnel. We have incorporated DSBD's response into the report and included DSBD's written response as an appendix to this report. We would like to extend our appreciation to DSBD's staff for their assistance during this review.

Attachment

cc: CalPERS Risk and Audit Committee Members
CalPERS Deputies

Review of Death Benefit Overpayment Receivables

Internal Audit Report

~~Confidential: Attorney Client Privilege and Attorney Work Product~~



California Public Employees' Retirement System

Office of Audit Services

IA19-001 | June 2021

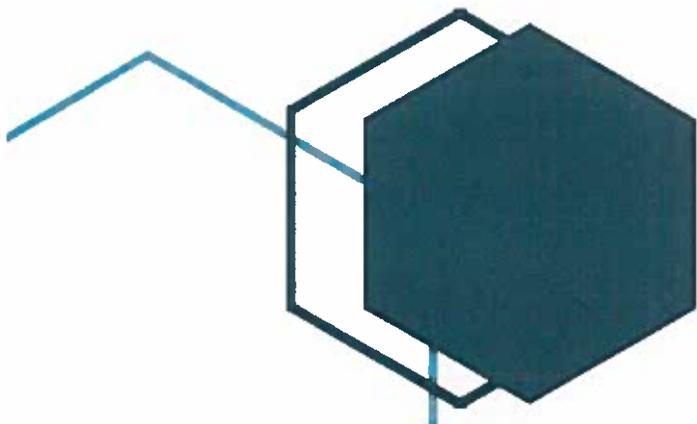


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Report Confidentiality
~~This report is confidential and privileged. You have received this report because you are an officer or employee with responsibility for overseeing or implementing the stated objective of this report. All recipients shall maintain the confidential and privileged nature of this report and shall not further disclose this report or its contents except as specified in the transmittal memorandum or with express written authorization from the California Public Employees' Retirement System (CalPERS) Board of Administration or its authorized designee.~~

Executive Summary

Objective

The objective of this review was to evaluate the effectiveness of controls over the death benefit overpayment receivables.

Observations

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

Response and Action Plan

DSBD Management's response is included as an appendix to the report.

Rating of Observations

OFAS assigned ratings to each observation: High, Medium, or Low. The level of the rating assigned to each observation is based on the effect the observation could have on financial, reputational, compliance, or operational risks to the organization.

- *High rated observations are considered to be of immediate concern and could cause significant risks if not addressed as soon as possible.*
- *Medium rated observations may cause risks and should be addressed in a timely manner.*
- *Low rated observations could escalate into risks and can be addressed through the normal course of conducting business.*

Background

DSBD supports the processing of survivor and disability benefits for CalPERS members. DSBD's Survivor Benefits section processes applications for the payment of lump-sum and monthly benefits to beneficiaries and survivors of both active and retired members and non-members following their death. The section also responds to requests for survivor benefit estimates from members, retirees, and community property payees. In addition, the Survivor Benefits section is responsible for the following functions:

- Conducting bi-monthly audits of death reports to identify unreported payee deaths.
- Collecting overpayments, the majority of which are the result of a warrant issued after the payee's death or late payroll reporting.
- Making determinations of industrial causation and other benefit entitlement determinations; resolving disputed benefit claims.

Scope

The objective of this review was to evaluate the effectiveness of controls over the death benefit overpayment receivables. This review covered the period from January 1, 2018 through July 31, 2020.

Methodology

To assess the effectiveness of controls, we:

- Interviewed DSBD management and staff to understand the processes for identifying, collecting, and writing off receivables.
- Reviewed DSBD's procedures related to the collection of death benefit overpayment receivables to determine compliance with Government Code (GC) section 20151 and State Administrative Manual (SAM) sections 8776 and 8776.6.
- Analyzed all outstanding receivables, using data analytics, and reviewed 30 specific receivables to determine compliance with GC section 20151 and SAM sections 8776 and 8776.6.
- Analyzed all receivable write-offs, using data analytics, and reviewed 10 specific receivables write-offs to determine compliance with SAM section 8776.6.

Results

Observation 1: Untimely Identification of Deaths

Rating: High

Condition:

DSBD did not consistently identify deaths timely to minimize the issuance of benefit payments after death and related receivables. Currently, DSBD relies on family members reporting deaths and weekly audit reports DSBD receives from The Berwyn Group to identify deaths. The Berwyn Group report compares death data they pull from various federal and state resources to the CalPERS database of retirees and beneficiaries (death match report). Of the 30 receivables we reviewed:

- 15, or 50 percent, were identified through reports by family members; 15, or 50 percent, were discovered by the death match report.
- DSBD identified the deaths, and thus the receivables, of the 30 aged receivables we reviewed an average of 47 months after the date of death, which resulted in a total of \$2.34 million in outstanding receivables.

Effect:

By not consistently identifying deaths timely, CalPERS continues to issue ongoing benefit payments to deceased members, which increases the difficulty to collect as time passes. As of July 31, 2019, CalPERS had more than 19,000 open receivables, totaling more than \$36 million. By July 31, 2020, the receivable balance had grown to nearly 22,000 in open receivables, a 16 percent increase, totaling more than \$41.6 million.

Cause:

DSBD's primary tool for identify deaths not reported timely by survivors is the death match report. However, DSBD has only one part-time staff designated to review the matches on the death match report to prevent overpayments from occurring. DSBD indicated that there are too many matches on the death match report for that part-time staff member to review. As a result, DSBD prioritizes the death report matches based on The Berwyn Group's level of confidence that the identified individual is our member. For example, the death match list identifies whether the deceased individual is either an exact match with our member in the myCalPERS system (myCalPERS), a highly probable exact match where the social security of the member does not match, or a partial match where either the name or birth date of the member does not match.

Furthermore, DSBD management does not conduct quality assurance (QA) reviews of the part-time staff member's work to ensure that deaths are entered timely and accurately in myCalPERS. Finally, DSBD does not currently have a formal process for validating members' living status (benefit verifications) to identify deaths sooner. For example, in 2019, DSBD conducted its first pilot project in which they sent benefit verifications to retirees or beneficiaries in a specified age range and to those who reside outside of the United States.

Review of Death Benefit Overpayment Receivables

Criteria:

GC section 20151 states that the board and its officers and employees shall discharge their duties with respect to this system solely in the interest of participants and beneficiaries... by investing with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

SAM section 8776 states that departments must ensure accounts receivables are recorded promptly and accurately into the accounting system. The general guidelines for recording accounts receivables promptly is within 30 days after the date that the account receivable arose. Departments must also ensure prompt and ongoing action is taken for the collection of accounts receivable. The invoice shall be sent to the debtor as soon as practical and within 30 days after the event giving rise to the account receivable.

Recommendation:

DSBD should review death match reports and identify the members' deaths timely. DSBD should also develop a process for conducting supervisory reviews to ensure deaths are identified and recorded timely and accurately. Further, DSBD should work with the Information Technology Services Branch (ITSB) to develop standard reports to identify accounts with certain risk factors and send out targeted benefit verifications.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Review the process of evaluating the results on the death match report and identify improvements to increase the timeliness of recording the deaths.
- 2) Implement a supervisory review of the death recording process to ensure timeliness and accuracy of death report entries.
- 3) Pursue an additional death match vendor.
- 4) Establish additional criteria to identify at risk accounts for the benefit verification process.

Refer to the Appendix for DSBD's full response.

DSBD Management Target Completion Date:

DSBD will complete the corrective actions as indicated below:

- 1) Within 30 days of the audit report issue date, review the process of evaluating the results on the death match report and identify improvements to increase the timeliness of recording the deaths.
- 2) Within 30 days of the audit report issue date, implement a supervisory review of the death recording process to ensure timeliness and accuracy of death report entries.
- 3) Within one year of the audit report issue date, pursue and secure an additional death match vendor.
- 4) Within 90 days of the audit report issue date, establish additional criteria to identify at risk accounts for the benefit verification process.

Observation 2: Untimely Death Benefit Overpayment Receivable Recording

Rating: High

Condition:

DSBD did not consistently record receivables within 30 days after identification of death. Once DSBD learns of a member or beneficiary death, DSBD records the death in myCalPERS, which triggers the benefit roll payments to be stopped. Specifically, out of the 30 receivables we reviewed:

- Six, or 20 percent, were initially identified as not being recorded within 30 days. However, subsequent to the draft issuance DSBD management provided additional information they obtained from Financial Reporting & Accounting Services (FRAS) indicating that three, or 10 percent, were not recorded within 30 days.
- On average, DSBD recorded the death overpayment receivables initially identified as 174 days after the death was known to CalPERS, and subsequently revised to 27 days following DSBD providing additional information after the draft report was issued. In one case, CalPERS received notification of a retiree's death five days after his death; however, CalPERS did not record the receivable for collection until 544 days after the notification. In the other two cases, the receivable was established 174 and 132 days after the notification.

Effect:

If the receivables are not recorded timely, DSBD cannot initiate the collection process timely, which could result in uncollectible receivables. Further, without an accurate record of outstanding receivables, FRAS cannot ensure that their financial statements are reliable and verifiable in accordance with the United States Generally Accepted Accounting Principles (US GAAP).

Cause:

According to DSBD, delays in recording some of the receivables resulted from system glitches that caused myCalPERS to not process deaths timely. DSBD explained that they do have death fail reports and incomplete death reports that they can generate and review to ensure deaths are processed correctly. However, DSBD management was not able to address the frequency with which those reports are produced, or the individual(s) responsible for reviewing them.

Furthermore, DSBD indicated that processing deaths could be complicated and have unique circumstances. However, DSBD does not have an ongoing QA function to ensure that seasoned staff are accurately processing these complex receivables. Although they described a robust training program for new staff, with significant QA reviews, once a staff member is no longer classified as in training, there is no ongoing monitoring or QA reviews of their work.

Criteria:

SAM section 8776 states that departments must ensure accounts receivables are recorded promptly and accurately into the accounting system. The general guidelines for recording accounts receivables promptly is within 30 days after the date that the account receivable arose.

US GAAP states that financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and faithfully represent what it purports to represent.

Recommendation:

DSBD should work with ITSB to obtain periodic reports that would allow DSBD to identify instances where the death report may not have processed correctly. DSBD should also develop a process to ensure these reports are reviewed, and any issues should be followed-up and resolved timely. Finally, DSBD should develop and implement an ongoing QA function to ensure that staff continue to process receivables timely and accurately.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Work with ITSB to ensure the Death Fail Report identifies all instances when the death report does not terminate the benefit stream and record a receivable.
- 2) Develop a process ensuring the Death Fail Report is generated monthly and timely reviewed and resolved before the next roll close.
- 3) Partner with ITSB to identify myCalPERS system changes that will prevent instances when the death report fails to terminate the benefit stream and record the receivable.

Refer to the Appendix for DSBD's full response.

DSBD Management Target Completion Date:

DSBD will complete the corrective actions as indicated below:

- 1) Within 90 days of the audit report issue date, work with ITSB to ensure the Death Fail Report identifies all instances when the death report does not terminate the benefit stream and record a receivable.
- 2) Within 60 days of the audit report issue date, develop a process ensuring the Death Fail Report is generated monthly and timely reviewed and resolved before the next roll close.
- 3) Within one year of the audit report issue date, partner with ITSB to identify and implement myCalPERS system changes that will prevent instances when the death report fails to terminate the benefit stream and record the receivable.

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

Rating: High

Condition:

DSBD issued certain lump-sum survivor benefits without first recovering the receivables owed to CalPERS on the same account. Specifically, as of July 2020, CalPERS issued approximately \$1.6 million in option 1 and survivor continuance pro-rata lump-sum payments to survivors without reducing the payout to clear more than \$250,000 in outstanding receivables. For example:

- For one receivable, the balance, as of July 2020, was approximately \$2,100, and DSBD released option 1 lump sum payments totaling nearly \$205,000 to the surviving spouse and son in 2019, without recovering the receivable. Instead of collecting the entire receivable balance from the lump sum payments, DSBD deducted \$80 per month from the ongoing survivor continuance warrants. In December 2019, the spouse died, and the surviving son has not yet claimed his benefits. According to DSBD, if those benefits are claimed, then they would deduct the overpayment from those option 1 lump sum payments. There have been no active collection efforts on this receivable since the spouse died in December 2019.
- For another receivable, the receivable was approximately \$2,700, and the children were the beneficiaries. This account contained participant notes July 2019 that the children had agreed to repay CalPERS. However, in August 2019, DSBD released option 1 lump sum payments for approximately \$29,000 without recovering the overpayment. Since the lump-sum payments were released, there has not been any additional collection activity on the receivable.

Effect:

DSBD did not collect more than \$250,000 in fully recoverable receivables.

Cause:

myCalPERS does not contain system rules to prevent lump sum payments from issuing on accounts with an outstanding receivable, even where the receivable results from a payment made after the member's death. In addition, DSBD's guidelines do not clearly address reducing lump sum payments by the amount of the overpayment. Instead, the guidelines contain a general statement that benefits should never be released or placed in unclaimed property when an overpayment exists unless they know the responsible party, defined as the individual who is responsible for the overpayment. The procedures do not address releasing benefits that would be fully recoverable, such as option 1 and survivor continuance pro-rata, where the survivor is not necessarily "responsible for the overpayment," but is benefitting from the benefit payout. According to DSBD, staff did not always reduce the receivable before paying out lump-sum payments and asserts it was a training issue.

Furthermore, DSBD management does not oversee whether staff are issuing lump-sum benefits prior to recovering the death benefit overpayment receivables. Finally, although DSBD has a QA function in place to ensure that new staff receive a combination of classroom training and actual case work training with a trainer, once staff are released from training and work independently, DSBD

management does not have an ongoing QA function to ensure staff are recovering overpayments before releasing survivor benefits.

Criteria:

GC section 20151 states that the board and its officers and employees shall discharge their duties with respect to this system solely in the interest of the participants and beneficiaries... by investing with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

GC section 20160(b) states the the board shall correct all actions taken as a result of errors or omissions of the university, any contracting agency, any state agency or department, or this system.

GC section 21267(b) states that any payments directly deposited by electronic fund transfer following the date of death of a person who was entitled to the receipt of the benefits from a state retirement system shall be refunded to the retirement system.

GC section 21510 states that any payment of benefits by warrant issued after the date of death of benefit recipient shall be refunded to the retirement system.

Recommendation:

DSBD should coordinate with ITSB to develop a solution for ensuring lump sum payments will not be released until the outstanding receivable is recovered. Additionally, DSBD should update its procedures to make sure staff reduces the survivor benefits before paying out lump-sum payments to ensure the collection of the overpayments. Finally, DSBD should develop and implement an ongoing QA function to ensure that staff are reducing survivor benefits if there is an outstanding receivable.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Update procedures indicating that lump sum death benefits payable should be utilized as a source from which to collect overpayments.
- 2) Coordinate with ITSB to develop a query for QA purposes that identifies instances when liability for a receivable was transferred to a beneficiary and lump sum death benefits were paid without recovering the overpayment.
- 3) Partner with ITSB to identify a myCalPERS system enhancement to provide DSBD team members a warning or hard stop when paying lump sum benefits and there is an open receivable on the account.

Refer to the Appendix for DSBD's full response.

DSBD Management Target Completion Date:

DSBD will complete the corrective actions as indicated below:

- 1) Within 60 days of the audit report issue date, update procedures indicating that lump sum death benefits payable should be utilized as a source from which to collect overpayments.
- 2) Within 90 days of the audit report issue date, coordinate with ITSB to develop a query for QA purposes that identifies instances when liability for a receivable was transferred to a beneficiary and lump sum death benefits were paid without recovering the overpayment.
- 3) Within one year of the audit report issue date, partner with ITSB to identify and implement a myCalPERS system enhancement to provide DSBD team members a warning or hard stop when paying lump sum benefits and there is an open receivable on the account.

Observation 4: Inadequate Collections of Death Benefit Overpayment Receivables

Rating: High

Condition:

DSBD did not adequately attempt to collect receivables from survivors, or, if available, the decedent's estate. Specifically, of the 30 receivables we reviewed:

- 30 out of 30, or 100 percent, did not contain an invoice for the overpayment issued within 30 days of the death notification nor were three past-due collection notices issued a minimum of 30-days apart.
- 24 out of 30, or 80 percent, did not contain an invoice for the overpayment with a due date.

DSBD also indicated that they will forward accounts, in which DSBD has exhausted their collection efforts, to FRAS for further collection efforts. However, the log that FRAS uses to track receivables that DSBD refers to them for collections showed that DSBD forwarded just under 500, or 2 percent, of the approximately 22,000 open death benefit overpayment receivables. FRAS' review of approximately one-third of the receivables referred by DSBD showed that they were, on average, more than four years old. DSBD sends these receivables to FRAS for additional follow-up via email on a case-by-case basis.

Effect:

By not sending collection notices and not referring receivables to FRAS timely, DSBD risks not recouping receivables timely.

Cause:

DSBD's Guidelines for [Death Benefit] Overpayments (guidelines) provides guidance for attempting collections for overpayments in which the responsible party has been identified. DSBD asserted that identifying the responsible party is difficult and can take a long time. However, DSBD has not used all the available tools for locating family members. For example, DSBD indicated that they use one database to attempt to identify and locate potential beneficiaries. We noted, however, The Berwyn Group that already provides DSBD with death match reports, also has other tools available, such as:

- **BeneficiaryCheck** that contains nearly 45 billion records to locate viable addresses and life statuses for possible connections or beneficiaries,
- **AddressCheck** that helps companies locate a correct address for lost individuals and reduces the time involved with correcting bad address information.

Additionally, if the deaths are identified timely, the CalPERS Legal Office (LEGO) has tools available that may be able to help locate executors of estates, which DSBD is currently not utilizing regularly. For payments issued after death, if DSBD has not received a response from the responsible party, then DSBD may attempt to request the banking institution to return the funds for those receivables where the benefit roll was issued via direct deposit.

The guidelines do not provide critical steps of the collections process, including the requirement to send an invoice to the debtor and when to send the receivable to FRAS for additional follow-up. Further, according to FRAS, DSBD and FRAS currently do not have defined roles and responsibilities over the collection of these receivables.

DSBD has also indicated that they do not have adequate resources to review all the open receivables because processing survivor benefits is a higher priority. Finally, DSBD does not collaborate with FRAS to utilize the automated collection process that is already built in to myCalPERS and could facilitate the level of collections efforts needed to reasonably write-off receivables.

Criteria:

GC section 20151 states that the board and its officers and employees shall discharge their duties with respect to this system solely in the interest of participants and beneficiaries... by investing with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

SAM section 8776 states that an accounts receivable is defined as a claim against the debtor, such as a person, business, or governmental entity for money owed to the state. The invoice shall be sent to the debtor as soon as practical and within 30 days after the event giving rise to the accounts receivable. The accounts receivable shall be considered delinquent if payment is not received by the due date. Departments must ensure prompt and ongoing action is taken for the collection of accounts receivable.

SAM section 8776.6 states that each department will develop collections procedures that will assure prompt follow-up on receivables. Departments will use the following procedures and guidelines for the collection of amounts owed to the state from nonemployees: (1) locating debtors, and (2) send a sequence of three collection letters at a minimum of 30-day intervals.

GC section 20160(b) states the the board shall correct all actions taken as a result of errors or omissions of the university, any contracting agency, any state agency or department, or this system.

GC section 21267(b) states that any payments directly deposited by electronic fund transfer following the date of death of a person who was entitled to the receipt of the benefits from a state retirement system shall be refunded to the retirement system.

GC section 21510 states that any payment of benefits by warrant issued after the date of death of benefit recipient shall be refunded to the retirement system.

Recommendations:

DSBD should collaborate with LEGO and FRAS to develop and document a process that ensures CalPERS is executing its receivable collections process in a manner consistent with GC section 20151, and SAM sections 8776 and 8776.6. This process should include all reasonable and available methods to identify the contact information of the beneficiary or the executor of the estate, and issuance of the required invoices and past due notices timely to maximize CalPERS' ability to recoup the death benefit overpayment receivables.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Document and prioritize a myCalPERS system change request to include the overpayment amount due and a due date on the condolence letter to meet SAM section 8776 invoice requirement.
- 2) Document and prioritize a myCalPERS system change request to include a repayment due date on the reclamation letter to meet the SAM section 8776 invoice requirement.
- 3) Invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on tools to identify debtors timely, invoicing the debtor including a due date and forwarding collections to FRAS to complete the dunning process according to SAM 8776 and 8776.6.
- 4) Explore Berwyn's Beneficiary Check service to understand how the feature may improve our collection efforts.

Refer to the Appendix for DSBD's full response.

DSBD Management Target Completion Date:

DSBD will complete the corrective actions as indicated below:

- 1) Within one year of the audit report issue date, document, prioritize and implement a myCalPERS system change request to include the overpayment amount due and a due date on the condolence letter to meet SAM section 8776 invoice requirement.
- 2) Within one year of the audit report issue date, document, prioritize and implement a myCalPERS system change request to include a repayment due date on the reclamation letter to meet the SAM section 8776 invoice requirement.
- 3) Within 30 days of the audit report issue date, invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on tools to identify debtors timely, invoicing the debtor including a due date and forwarding collections to FRAS to complete the dunning process according to SAM 8776 and 8776.6.

- 4) Within 30 days of the audit report issue date, explore Berwyn's Beneficiary Check service to understand how the feature may improve our collection efforts.

Refer to the Appendix for DSBD's full response.

Observation 5: Untimely Death Benefit Overpayment Receivable Write-Offs

Rating: High

Condition:

DSBD did not review receivables for timely write-off. Specifically, our review of 10 receivables that were written off identified that:

- Eight, or 80 percent, of the receivables were written off an average of 101 months after DSBD identified the receivable for write off.
- Two, or 20 percent, of the receivables, did not have any documentation in myCalPERS to support the decision to forward the receivable to FRAS for a write-off.

Additionally, when we reviewed the outstanding receivables report, as of July 31, 2020, we noted that there were receivables that should have been cleared from the list or could be eligible for write-off. Specifically, of the nearly 22,000 outstanding death benefit overpayment receivables, totaling \$41.6 million:

- Approximately 1,900, or 9 percent, of the receivables were negative, totaling nearly \$1.7 million. On average, these negative balance receivables were 53 months old.
- 7,400, or 34 percent, of the receivables are \$500 or less, totaling over \$1.5 million. On average, these death benefit overpayment receivables less than \$500 were 46 months old.

Effect:

By regularly reviewing receivables for write-off, DSBD could have cleared over 9,300, or 43 percent, of the nearly 22,000 outstanding receivables, that either have negative balances or were less than \$500. The negative balances could represent instances where the survivors paid the receivable more than once. In these instances the duplicated payment should be returned to the survivors. Further, FRAS cannot ensure that their financial reporting is reliable and verifiable in accordance with US GAAP.

Cause:

There is no clearly defined process to ensure that receivables are written off appropriately and timely. According to DSBD, a team member makes the decision to write off an overpayment receivable and completes the write-off request. The requests are set aside until DSBD collects approximately 25 write-off requests to submit to FRAS. DSBD further explained that once the write-off requests are submitted to FRAS, they perform a high-level review of the monthly overpayment receivables report for completeness.

Additionally, DSBD does not have a process for regularly reviewing accounts receivables that could either be eligible for write-off or should be cleared from the list. According to DSBD, management has not used the aging report to review negative balance receivables and have not looked at those

balances in the past few years. Furthermore, DSBD management indicated they only monitor the total amount of the receivables.

Criteria:

SAM section 8776.6 states that if all reasonable collection procedures do not result in payment, departments may request discharge from the accountability of uncollectable amounts due from private entities. Departments will review their accounts receivable, no less than quarterly, to identify receivables for discharge.

US GAAP states that financial reporting should be reliable; that is the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent.

Recommendations:

DSBD should collaborate with LEGO and FRAS to develop a process for writing off death benefit overpayment receivables appropriately and timely and in accordance with SAM 8776.6. This process should include regularly reviewing receivables for potential discharge, clearing uncollectible accounts, including ones with negative balance receivables timely, and systematically tracking and following-up on write-offs submitted to FRAS.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on strategies to timely identify and write off uncollectible debts.
- 2) Form a team to address our inventory of negative receivables and we will monitor via a regularly generated report to ensure we remain current in clearing those balances.
- 3) Work with FRAS to develop a mechanism to track write-off requests submitted to FRAS and regularly review for completion.

Refer to the Appendix for DSBD's full response.

DSBD Management Target Completion Date:

DSBD will complete the corrective actions as indicated below:

- 1) Within 30 days of the audit report issue date, invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on strategies to timely identify and write off uncollectible debts.
- 2) Within 30 days of the audit report issue date, form a team to address our inventory of negative receivables and we will monitor via a regularly generated report to ensure we remain current in clearing those balances.
- 3) Within 90 days of the audit report issue date, work with FRAS to develop a mechanism to track write-off requests submitted to FRAS and regularly review for completion.

Conclusion

Based on our review, we identified control weaknesses as noted in observations 1 through 5.

We conducted this review in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Management is responsible for providing reasonable mitigation of the reporting and compliance risks associated with death benefit overpayment receivables. The Office of Audit Services will continue consulting with management to ensure risks are reasonably mitigated.

Respectfully Submitted,

Original signed by Beliz Chappuie, Chief

BELIZ CHAPPUIE, CPA, MBA, CISA
Chief, Office of Audit Services

Staff: Julie Munekawa, CIA, CISA, Assistant Chief
Huyen Le, CIA, CPA, Senior Audit Manager
Meghann Stedman, MPPA, Staff Audit Manager
Erin Satterwhite, MBA, Audit Lead
Janice Ng, Auditor

APPENDIX

DSBD's Response to the Audit Report



Disability and Survivor Benefits Division

Memorandum

May 3, 2021

To: Matthew G. Jacobs, General Counsel
Legal Office

To: Belize Chappuie, Chief
Office of Audit Services

Via: Anthony Suine, Deputy Executive Officer
Customer Services and Support Branch

A handwritten signature in cursive script that reads "Anthony Suine".

From: Keith Riddle, Chief
Disability and Survivor Benefits Division

Subject: Review of Death Benefit Overpayment Receivables, Job Number IA19-001-
Management Response

This memo is in response to the draft report for the Review of Death Benefit Overpayment Receivables. Below are the findings and recommendations from the draft report and Disability and Survivor Benefits Division management responses.

Observation 1:

Untimely Identification of Deaths

Recommendation:

DSBD should review death match reports and identify the member's death timely. DSBD should also develop a process for conducting supervisory reviews to ensure deaths are identified and recorded timely and accurately. Further, DSBD should work with the Information Technology Services Branch (ITSB) to develop standard reports to identify high-risk accounts and send out targeted benefit verifications.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Review the process of evaluating the results on the death match report and identify improvements to increase the timeliness of recording the deaths.
- 2) Implement a supervisory review of the death recording process to ensure timeliness and accuracy of death report entries.
- 3) Pursue an additional death match vendor.
- 4) Establish additional criteria to identify at risk accounts for the benefit verification process.

Deaths are reported to CalPERS primarily, but not exhaustively, through two channels: personally reported through the CalPERS Contact Center by family, friends, employers or other third parties; or identified by our death verification service provider, The Berwyn Group (Berwyn). For those deaths reported through the CalPERS Contact Center, team members enter the annuitant's death into myCalPERS at the time of contact and benefits are terminated the next day through an overnight batch process. Our death verification process begins after roll close when CalPERS sends a file of payee records to Berwyn. Berwyn conducts a comparison of our payee records against their vital statistic data and typically returns results to CalPERS within 3 business days. A CalPERS team member reviews the hundreds of death verification results, validates the death in a secondary public record database and enters the death reports into myCalPERS as appropriate. DSBD follows the same process with weekly updates we receive from Berwyn. Our goal is to enter deaths as quickly as possible to ensure another benefit payment is not issued on the next monthly roll. Deaths are typically entered within 7-10 calendar days of receiving the Berwyn results. Of the 14 Berwyn identified deaths in the audit sample, on average 23 calendar days lapsed from CalPERS receiving the Berwyn results and a team member entering the death report into myCalPERS. The 23 day average is skewed by the fact that two cases in the sample involved partial, not exact matches, when comparing SSN, name and date of birth to Berwyn records and required additional research and coordination with other CalPERS program areas to confirm the individual's identity. Absent those two partial matches requiring additional research, DSBD entered the deaths on average 8.5 calendar days after receiving the Berwyn results.

According to the audit report, nearly half of the sample contained Berwyn identified deaths and DSBD identified deaths on average 47 months after the date of death. However, according to a death notification report for the audit period of January 2018 through July 2020, the 41,163 annuitant deaths reported to CalPERS were entered into myCalPERS on average 21 days after the date of death (versus bases on date of notification); 14 days for personally reported deaths, 46 days for Berwyn detected. According to the same report spanning the audit period, 31,671 or 77% of deaths were reported by a personal call; 9,492 or 23% were identified through Berwyn. The fact that OFAS utilized the aged receivable report as the data source, coupled with the data analytics applied to arrive at the sample, led to observations not indicative of the population over the audit period. Although DSBD timely enters deaths into myCalPERS once we are notified either via personal report or by Berwyn, the detection of unreported deaths is not foolproof. The methodology used by OFAS targeted a few larger receivables that were a result of deaths not reported to CalPERS nor known to Berwyn for lengthy periods of time.

Timely detection of unreported deaths is an issue facing many sectors in the financial services industry including public pension systems such as CalPERS. The challenge of detecting

unreported deaths became more problematic in 2011 when the Social Security Administration (SSA) drastically reduced the number of records reported in the publicly available Death Master File (DMF) by prohibiting access to state death records. SSA maintains a full file of death information that includes state death records. Pursuant to section 205(r) of the Social Security Act, SSA only shares the full file with certain Federal and State agencies. SSA provides the Department of Commerce's National Technical Information Service (NTIS) a public file of death information which, according to a 2011 SSA reinterpretation of section 205(r), excludes state death records received through its contracts with the states. NTIS sells the public file of death information, also known as the DMF, to other agencies and private organizations such as banks and credit companies. According to death verification service providers, the DMF is no longer the preeminent source of death data and now only identifies roughly 25 to 35 percent of deaths that occur in the United States.

The publicly available DMF contains death records that are 3 years old and older. The Limited Access DMF contains current deaths in addition to what is contained in the publicly available DMF but still excludes state death records. The Limited Access DMF is available to subscribers certified by NTIS for having a legitimate fraud prevention interest or a legitimate business purpose pursuant to law, governmental rule regulation or fiduciary duty.

CalPERS submitted an application to SSA to gain access to the SSA full file of death information that includes the state reported death records. Our request was denied according to Section 205(r)(4) since CalPERS benefits are not wholly funded by the State. As an alternative, SSA indicated they have legal authority to provide CalPERS access to the State Verification and Enumeration System (SVES) under the agency's Privacy Act routine use for the administration of a health maintenance program, including survivor benefits and retirement benefits. CalPERS is pursuing the SVES electronic data exchange with the SSA.

CalPERS contracts with Berwyn to provide death verification services. Berwyn is a certified subscriber to the Limited Access DMF and thus has access to the current death records in the DMF. To offset the effects of the DMF not containing state death records, Berwyn augments what they receive via the DMF by entering into agreements with individual states to receive death records directly. In addition, Berwyn receives death notifications from many different sources such as obituaries, funeral homes, government agencies and public records amongst other proprietary channels. Berwyn utilizes artificial intelligence, sophisticated algorithms and advanced search logic to ensure CalPERS receives reliable matches with a high degree of certainty.

Over the past few years, DSBD expanded the services received from Berwyn to improve the timeliness of identifying previously undetected deaths. In 2017, DSBD increased the frequency of sending our monthly payee data file to Berwyn from bi-monthly (every two months) to monthly. In April 2019, DSBD began receiving weekly updates from Berwyn as they received additional records from SSA and we added obituary search to help locate decedents in states with proprietary vital statistics records. DSBD is conducting market research to secure an additional death verification service provider to supplement Berwyn if the SSA SVES electronic data exchange proves to not be a viable option.

In 2019, DSBD launched a Benefit Verification pilot program to confirm the living status of CalPERS annuitants deemed high risk of potential benefit ineligibility. The pilot project successfully identified 153 members no longer eligible for benefits due to deaths previously not

reported to CalPERS. This represented \$199,354 in monthly warrants that were at risk of becoming an overpayment. In September 2020, DSBD continued with Benefit Verification by sending out 2,700 certification of eligibility forms equally distributed amongst our membership of payees ranging from 50 to 100 years of age and retired at least 5 years. DSBD will conduct another round of Benefit Verification in spring 2021 once we complete our current cycle.

Although the death benefit overpayment receivables balance increased by \$5.6 million in fiscal year 2019/2020, during this same period DSBD cleared or recovered 28,071 receivables totaling \$52,202,482.53. Additionally, the \$5.6 million increase in death benefit overpayment receivables during 2019/2020 represents roughly .022% of the \$25.8 billion in benefits CalPERS paid that year.

Target Completion Dates:

DSBD will complete the corrective actions as indicated below:

- 1) Within 30 days of the audit report issue date, review the process of evaluating the results on the death match report and identify improvements to increase the timeliness of recording the deaths.
- 2) Within 30 days of the audit report issue date, implement a supervisory review of the death recording process to ensure timeliness and accuracy of death report entries.
- 3) Within one year of the audit report issue date, pursue and secure an additional death match vendor.
- 4) Within 90 days of the audit report issue date, establish additional criteria to identify at risk accounts for the benefit verification process.

Observation 2:

Untimely Death Benefit Overpayment Receivable Recording

Recommendation:

DSBD should work with ITSB to obtain periodic reports that would allow DSBD to identify instances where the death report may not have processed correctly. DSBD should also develop a process to ensure these reports are reviewed, and any issues should be followed-up and resolved timely. Finally, DSBD should develop and implement an ongoing QA function to ensure that staff continue to process receivables timely and accurately.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Work with ITSB to ensure the Death Fail Report identifies all instances when the death report does not terminate the benefit stream and record a receivable.

2) Develop a process ensuring the Death Fail Report is generated monthly and timely reviewed and resolved before the next roll close.

3) Partner with ITSB to identify myCalPERS system changes that will prevent instances when the death report fails to terminate the benefit stream and record the receivable.

Deaths are reported to CalPERS primarily, but not exhaustively, through two channels: personally reported by family, friends, employers or other third parties through the CalPERS contact center; or identified by our death verification service provider, the Berwyn Group. CalPERS team members enter annuitant deaths into myCalPERS at the time of contact and the system is designed to immediately terminate the benefit stream and record a receivable on the decedent's account for all benefits issued after the date of death. In rare instances, the system does not function as designed and we regularly generate a Death Failed Report to identify these incidents when the benefit stream is not terminated and a receivable not recorded after a death report is entered into myCalPERS. Due to the uniqueness of some payees, DSBD learned that not all situations were detected and listed on our existing Death Failed Report.

Target Completion Dates:

DSBD will complete the corrective actions as indicated below:

1) Within 90 days of the audit report issue date, work with ITSB to ensure the Death Fail Report identifies all instances when the death report does not terminate the benefit stream and record a receivable.

2) Within 60 days of the audit report issue date, develop a process ensuring the Death Fail Report is generated monthly and timely reviewed and resolved before the next roll close.

3) Within one year of the audit report issue date, partner with ITSB to identify and implement myCalPERS system changes that will prevent instances when the death report fails to terminate the benefit stream and record the receivable.

Observation 3:

Lack of Collections Prior to Issuance of Lump Sum Survivor Benefits

Recommendation:

DSBD should coordinate with ITSB to develop a solution for ensuring lump sum payments will not be released until the outstanding receivable is recovered. Additionally, DSBD should update its procedures to make sure staff reduced the survivor benefits before paying out lump-sum payments to ensure the collection of the overpayments. Finally, DSBD should develop and implement an ongoing QA function to ensure staff are reducing survivor benefits if there is an outstanding receivable.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Update procedures indicating that lump sum death benefits payable should be utilized as a source from which to collect overpayments.
- 2) Coordinate with ITSB to develop a query for QA purposes that identifies instances when liability for a receivable was transferred to a beneficiary and lump sum death benefits were paid without recovering the overpayment.
- 3) Partner with ITSB to identify a myCalPERS system enhancement to provide DSBD team members a warning or hard stop when paying lump sum benefits and there is an open receivable on the account.

DSBD's current policy of utilizing all lump sum benefits, except for the Retired Death Benefit, as a source to recoup death benefit overpayments, regardless if the beneficiary benefitted from the overpaid benefits, may not be consistently followed by all team members. DSBD will update procedures indicating that lump sum death benefits payable should be utilized as a source from which to collect overpayments.

Furthermore, in order to strengthen our overpayment collection ability, DSBD has proposed legislation that would allow all benefits payable, including the Retired Death Benefit, to be considered as a source to recoup overpaid benefits similar to the Education Code governing CalSTRS.

Although DSBD experienced isolated instances of not recouping overpayments from lump sum benefits paid, we cleared or recovered 28,071 receivables totaling \$52,202,482.53 in 2019/2020.

Target Completion Dates:

DSBD will complete the corrective actions as indicated below:

- 1) Within 60 days of the audit report issue date, update procedures indicating that lump sum death benefits payable should be utilized as a source from which to collect overpayments.
- 2) Within 90 days of the audit report issue date, coordinate with ITSB to develop a query for QA purposes that identifies instances when liability for a receivable was transferred to a beneficiary and lump sum death benefits were paid without recovering the overpayment.
- 3) Within one year of the audit report issue date, partner with ITSB to identify and implement a myCalPERS system enhancement to provide DSBD team members a warning or hard stop when paying lump sum benefits and there is an open receivable on the account.

Observation 4:

Inadequate Collections of Death Benefit Overpayment Receivables

Recommendation:

DSBD should collaborate with LEGO and FRAS to develop and document a process that ensures CalPERS is executing its receivable collection process in a manner consistent with GC Section 20151, and SAM 8776 and 8776.6. This process should include all reasonable and available methods to identify the contact information of the beneficiary or the executor of the estate, and issuance of the required invoices and past due notices timely to maximize CalPERS' ability to recoup the death benefit overpayment receivables.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Document and prioritize a myCalPERS system change request to include the overpayment amount due and a due date on the condolence letter to meet the State Administrative Manual (SAM) section 8776 invoice requirement.
- 2) Document and prioritize a myCalPERS system change request to include a repayment due date on the reclamation letter to meet the SAM section 8776 invoice requirement.
- 3) Invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on tools to identify debtors timely, invoicing the debtor including a due date and forwarding collections to FRAS to complete the dunning process according to SAM 8776 and 8776.6.
- 4) Explore Berwyn's Beneficiary Check service to understand how the feature may improve our collection efforts.

CalPERS receives on average roughly 1,800 reported member deaths per month. DSBD administers survivor benefits and prioritizes workload according to the CalPERS mission of delivering retirement and health care benefits to members and beneficiaries, our Enterprise Key Performance Indicator related to benefit payment timeliness and Government Code Section 21499 (along with many other provisions) defining interest we incur once we are in receipt of a completed claim for benefits and we issue the resulting payment untimely.

After an annuitant's death report is entered into myCalPERS, the system is designed to immediately terminate the benefit stream and record a receivable on the decedent's account for all benefits issued after the date of death. A condolence letter is automatically sent in all cases to the reporting party, or when identified by Berwyn, to the decedent's estate at their last known address, indicating that any benefits issued after the date of death are not payable and must be returned to CalPERS.

Additionally, the system automatically generates and sends reclamation letters for undue warrants issued to the financial institutions when overpaid funds are deposited by EFT. A copy of this letter is also sent to the reporting party except when the source is The Berwyn Group. The reclamation letters list individually each payment issued after the date of death along with

the total amount that must be returned to CalPERS in accordance with Government Code Section 21510 and 21267(b). The reclamation letter also states that according to Government Code section 7480(p), if the financial institution is unable to return the funds, they must provide CalPERS with the name of the joint account holder or the person who closed the account. If DSBD receives no response nor all the returned funds, we then request bank account information, often via subpoena, to identify joint account holders or the individual who closed the account. Frequently, bank account balances are depleted by other creditor's automatic withdrawals prior to CalPERS attempting to recover our funds.

Although the death benefit overpayment receivables balance increased by \$5.6 million in fiscal year 2019/2020, during this same period DSBD cleared or recovered 28,071 receivables totaling \$52,202,482.53.

Additionally, DSBD, in partnership with ITSB, has developed a dashboard of death notifications that provides us just-in-time information regarding newly created overpayment receivables allowing DSBD to identify and prioritize those receivables that may be problematic to collect based on certain criteria.

Target Completion Dates:

DSBD will complete the corrective actions as indicated below:

- 1) Within one year of the audit report issue date, document, prioritize and implement a myCalPERS system change request to include the overpayment amount due and a due date on the condolence letter to meet the State Administrative Manual (SAM) section 8776 invoice requirement.
- 2) Within one year of the audit report issue date, document, prioritize and implement a myCalPERS system change request to include a repayment due date on the reclamation letter to meet the SAM section 8776 invoice requirement.
- 3) Within 30 days of the audit report issue date, invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on tools to identify debtors timely, invoicing the debtor including a due date and forwarding collections to FRAS to complete the dunning process according to SAM 8776 and 8776.6.
- 4) Within 30 days of the audit report issue date, explore Berwyn's Beneficiary Check service to understand how the feature may improve our collection efforts.

Observation 5:

Untimely Death Benefit Overpayment Receivable Write-Offs

Recommendation:

DSBD should collaborate with LEGO and FRAS to develop a process for writing off death benefit overpayment receivables appropriately and timely and in accordance with SAM 8776.6. This process should include regularly reviewing receivables for potential discharge, clearing

uncollectible accounts, including ones with negative balance receivables timely, and systematically tracking and following-upon write-offs submitted to FRAS.

DSBD Management Response:

DSBD agrees with the recommendations, but not the severity of the finding, and will take the following actions:

- 1) Invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on strategies to timely identify and write off uncollectible debts.
- 2) Form a team to address our inventory of negative receivables and we will monitor via a regularly generated report to ensure we remain current in clearing those balances.
- 3) Work with FRAS to develop a mechanism to track write-off requests submitted to FRAS and regularly review for completion.

CalPERS receives on average roughly 1,800 reported member deaths per month. DSBD administers survivor benefits and prioritizes workload according to the CalPERS mission of delivering retirement and health care benefits to members and beneficiaries, our Enterprise Key Performance Indicator related to benefit payment timeliness and Government Code Section 21499 (along with many other provisions) defining interest we incur once we are in receipt of a completed claim for benefits and we issue the resulting payment untimely.

During fiscal year 2018/2019, DSBD created a project team dedicated to writing off receivables aged greater than 10 years which is the statute of limitations for collecting death benefit overpayment receivables according to Government Code section 20164(c). FRAS agreed to allow DSBD to submit bundles of similarly situated receivables to write-off in groups of no more than 25 per request versus sending each individually. This resulted in closing out 876 receivables totaling \$2,756,923.10.

According to FRAS, in fiscal year 2019/2020, DSBD discharged 377 receivables totaling \$486,322.43

DSBD and FRAS recently collaborated to write-off 275 receivables with balances ranging from -\$10 to \$10 with no activity for at least one year. These receivables were deemed not cost effective to pursue and were written off according to Government Code sections 20161(d) and 12438.

Target Completion Dates:

DSBD will complete the corrective actions as indicated below:

- 1) Within 30 days of the audit report issue date, invite Legal to attend our long-standing monthly meeting with FRAS and ensure we focus on strategies to timely identify and write off uncollectible debts.
- 2) Within 30 days of the audit report issue date, form a team to address our inventory of negative receivables and we will monitor via a regularly generated report to ensure we remain current in clearing those balances.

3) Within 90 days of the audit report issue date, work with FRAS to develop a mechanism to track write-off requests submitted to FRAS and regularly review for completion.