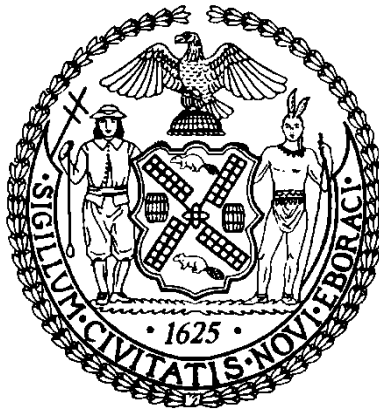


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

FINANCIAL AUDIT

**Tina Kim
Deputy Comptroller for Audit**



**Audit Report on the
New York City Teachers' Retirement System's
Controls over the Identification of Deceased
Individuals Collecting Pension Payments**

FM11-111A

September 7, 2011



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

September 7, 2011

To the Residents of the City of New York:

My office, in accordance with the responsibilities of the Comptroller contained in Chapter 5 §93 of the New York City Charter, has audited the Teachers' Retirement System's (TRS) controls over the identification of deceased individuals collecting pension payments. We audit retirement systems such as TRS as a means of ensuring that they operate efficiently and are accountable for resources and revenues in their charge.

To identify deceased individuals collecting pensions, TRS utilizes a monthly death match report generated by a third party. The third party report would identify an individual who is actively receiving a pension payment but is reported deceased by the Federal Social Security Administration (SSA). As of November 2010, TRS augmented the third party report with the City Human Resources and Management System (CHRMS) death match report. Since then TRS has been using the HR-11 report generated through the CHRMS. The HR-11 report, preprogrammed by the New York City Office of Payroll Administration (OPA), utilizes a cumulative database to identify and reduce instances of payments to deceased recipients and to compare dates of death recorded within PPMS to a database of deceased individuals. The database of deceased individuals is updated on a monthly basis with a file provided by SSA.

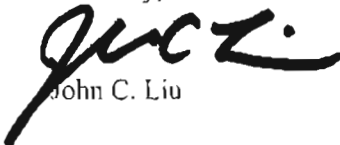
The audit found that TRS maintains adequate controls over the identification of deceased individuals collecting pension payments. However, the HR-11 reports lack evidence of supervisory approval and identification of the staff responsible for the initial examination. Also, TRS needs to create an archive of previous reports for future investigations. Finally, TRS outsources the production of certain death match reports, which is no longer necessary due to the HR-11 report. Outsourcing the death match reports is an unnecessary risk because it requires the dissemination of personally identifiable information to a third party.

The audit recommended that TRS officials should ensure that work performed by staff is documented and supervisory reviews are evidenced by sign-off—attesting to compliance with policies and procedures. TRS officials should coordinate with the FISA, to determine the feasibility of developing a back-up plan to store the HR-11 reports and consider using the City-generated reports in place of obtaining the third party vendor reports.

The results of our audit, which are presented in this report, have been discussed with TRS officials, and their comments have been considered in preparing this report. Their complete response is attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,



John C. Liu

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Audit Report on the New York City Teachers' Retirement System's Controls over the Identification of Deceased Individuals Collecting Pension Payments

FM11-111A

AUDIT REPORT IN BRIEF

To identify deceased individuals collecting pensions, the New York City Teachers' Retirement System (TRS) utilizes a monthly death match report comparing Federal Social Security Administration (SSA) and TRS records. The report would identify an individual who is actively receiving a pension payment but is reported deceased on the SSA death report. TRS itself does not produce any death match reports; it uses a death match report generated by a third party vendor. The third party creates death match reports by comparing the SSA death records against an individual's date of death as recorded in the Unified Pension System (UPS). The report lists individuals who have been reported as deceased during that month and are also receiving pension payments. These reports are created once a month. They also identify an individual who is actively receiving a pension payment but is reported dead on the SSA death report.

As of November 2010, TRS uses the third party report in conjunction with the City Human Resources and Management System (CHRMS) HR-11 death match report. The HR-11 report, preprogrammed by the New York City Office of Payroll Administration (OPA), utilizes a cumulative database to identify and reduce instances of payments to deceased recipients and to compare dates of death recorded within the New York City Pension Payroll Management System (PPMS) to a database of deceased individuals. A match is generated when a pensioner or beneficiary listed as active (not deceased) in PPMS is reported as deceased in the database. The database of deceased individuals is updated on a monthly basis with a file provided by SSA.

Audit Findings and Conclusions

The audit determined that TRS maintains adequate controls over the identification of deceased individuals collecting pension payments. TRS took timely and appropriate action on the individuals who were identified as deceased. However, the HR-11 reports lack evidence of supervisory approval and identification of the staff responsible for the initial examination. Moreover, the PPMS CHRMS system only produces reports on a real-time basis and cannot be recreated or generated to obtain past information. Consequently, TRS needs to create an archive of previous reports for future investigations.

Finally, TRS outsources the production of certain death match reports, which is no longer necessary due to the HR-11 report. Outsourcing the death match reports is an unnecessary risk because it requires the dissemination of personally identifiable information to a third party.

Although there is no indication that these records were misused, TRS cannot be assured that the controls over this information are adequate.

Audit Recommendations

TRS should:

- Ensure that work performed by staff is documented and supervisory reviews are evidenced by sign-off—attesting to compliance with policies and procedures.
- Coordinate with FISA to determine the feasibility of developing a back-up plan to store the HR-11 reports.
- Consider using the HR-11 and Death Match Discrepancy Report in place of obtaining the third party vendor reports.

Auditee Response

TRS officials generally agreed with the audit’s findings and recommendations.

INTRODUCTION

Background

This audit regarding the Teachers' Retirement System (TRS) is one of five audits of the City's retirement systems intended to determine whether controls are in place to detect and prevent the illegal collection of pension payments after the death of a pensioner or beneficiary.¹

TRS was formed to provide New York City educators with retirement, disability, and death benefit services. New York City educators are full-time teachers and adjunct instructors for CUNY, as well as teachers, pedagogues, and paraprofessionals for New York City Charter Schools and the New York City Board of Education.

Pension payroll related tasks are performed through the New York City Pension Payroll Management System (PPMS). The system allows users to perform pension-related tasks by capturing and updating all retiree/beneficiary data submitted by the pension agencies, central agencies, and external entities. PPMS processes pension payroll activities and non-periodic vouchers (loans, refunds, rollovers, death benefits).

When a member or beneficiary dies, TRS's Death Benefit Unit can be notified of the death in various ways. The decedent's family may notify TRS when an individual has passed away and sends a death certificate. Additionally, TRS utilizes a monthly death match report comparing Federal Social Security Administration (SSA) and TRS records; if a pensioner has not been cashing his/her checks or the checks are returned, TRS will terminate pension payments. Any overpayment would be recouped. Should the pensioner have a beneficiary, TRS determines if the beneficiary should continue to receive benefits and, if so, processes the adjustment accordingly.

TRS does not produce its own death match reports. It uses a death match report generated by a third party vendor at an annual cost of \$2,700. The third party creates death match reports by comparing the SSA death records against an individual's date of death as recorded in the Unified Pension System (UPS). UPS is TRS's custom developed computer system designed to administer and process all aspects of TRS membership through one database system. The reports list individuals who have been reported as deceased during that month and are also receiving pension payments. These reports are created once a month. The reports identify the individual's name, social security number, date of birth, date of death, and address. Also, it would identify an individual who is actively receiving a pension payment but is reported dead on the SSA death report.

¹ There are five New York City retirement systems that provide benefits for their employees and the employees of various City agencies. They are: New York City Board of Education Retirement System (BERS); New York City Employees' Retirement System (NYCERS); New York City Fire Department Pension Fund (FIRE); New York City Police Department Pension Fund (POLICE); and New York City Teachers' Retirement System (TRS). Separate reports have or will be issued for the four other retirement systems.

TRS's Internal Audit Division utilizes the third party vendor reports. This division accesses the reports and compares each individual's status in UPS to verify if the individual is already recorded as deceased. After receiving the third party report, the Internal Audit Division will analyze the reports and the pension payments of those individuals who are identified as deceased. The payments of individuals who are identified as deceased will be placed on hold on the month of notification. The Internal Audit Division sends a letter to the individual's family to request an original death certificate for confirmation. Currently, TRS will temporarily suspend payment of benefits upon receiving notification of an individual's death. The actual death certificate is used for permanently terminating payments.

As of November 2010, TRS uses the third party report in conjunction with the City Human Resources and Management System (CHRMS) HR-11 death match report. The HR-11 report, preprogrammed by the New York City Office of Payroll Administration (OPA), utilizes a cumulative database to identify and reduce instances of payments to deceased recipients and to compare dates of death recorded within PPMS to a database of deceased individuals. A match is generated when a pensioner or beneficiary listed as active (not deceased) in PPMS is reported as deceased in the database. The database of deceased individuals is updated on a monthly basis with a file provided by SSA.

Objective

To determine whether TRS has the controls in place to detect and prevent the illegal collection of pension payments after the death of a pensioner or beneficiary.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS) except for organizational independence as disclosed in the following paragraph. 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

We are issuing a modified GAGAS compliance statement because of the Comptroller's mandated non-audit responsibility in connection with the TRS Board. In accordance with §13-507 of the New York City Administrative Code, the Comptroller is one of seven trustees of the TRS Board. The Comptroller sits on the Board through a designee. The Comptroller's designee was not involved in planning or conducting this audit or in writing or reviewing this audit report. Accordingly, we feel that the above issue has had no impact on the objectivity of this audit, or on the conclusions and associated findings disclosed in this report.

The scope period of the audit was July 1, 2010, to January 31, 2011. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with TRS officials during and at the conclusion of this audit. A preliminary draft report was sent to TRS officials and discussed at an exit conference held on July 29, 2011. On August 4, 2011, we submitted a draft report to TRS officials with a request for comments. We received a written response from TRS on August 15, 2011.

In its response, TRS officials generally agreed with the audit's findings and recommendations. TRS officials stated they "...will include an audit stamp for each step completed in the process to ensure that work performed by staff is documented. Furthermore, the IA manager's supervisory review shall be indicated by an electronic authorization attesting to the associate's compliance with applicable policies and procedures." However, TRS also stated "TRS' IT department is internally developing automation to store HR-11 reports historical information in a secure server." Although TRS is taking action to store the historical information, the audit specifically recommends TRS coordinate with FISA so the reports can be stored independently. TRS should reconsider this recommendation in order to ensure the integrity of those documents.

Due to the favorable response, we did not include any aspects of the responses in the subsequent text of this report. The full text of the response received from TRS is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

TRS maintains adequate controls over the identification of deceased individuals collecting pension payments. Our review of the reports found that TRS took timely and appropriate action on the 200 sampled individuals who were identified as deceased. However, the HR-11 reports lack evidence of supervisory approval and identification of the staff responsible for the initial examination. Moreover, the PPMS CHRMS system only produces reports on a real-time basis and cannot be recreated or generated to obtain past information. Consequently, TRS needs to create an archive of previous reports for future investigations. Finally, TRS outsources the production of certain death match reports, which is no longer necessary due to the HR-11 report. Outsourcing the death match reports is an unnecessary risk because it requires the dissemination of personally identifiable information to a third party. Although there is no indication that these records were misused, TRS cannot be assured that the controls over this information are adequate.

Monitoring and Accountability Could Be Enhanced

Our review of the reports found that TRS took appropriate action on those individuals who were cited and adequately handled the suspension of pension payments once notified of an individual's date of death. However, there is a lack of evidence documenting supervisory verification indicating adherence to TRS procedures. TRS's monitoring of the controls that identify individuals collecting pensions after their date of death could be further enhanced if TRS employees would sign off, date, and approve reports that are reviewed. Moreover, through no fault of TRS, the PPMS CHRMS system lacks an audit function for independent confirmation that would further ensure procedures are being complied with. Monitoring is one of five essential components that make up an internal control system. Sign-offs and approvals ensure accountability. Although TRS took timely and appropriate action on individuals cited in the aforementioned reports, monitoring ensures that controls continue to operate effectively. While an important control by itself, sign-offs and supervisory approval of reports can also compensate for internal control weaknesses elsewhere in the system.

As an example, in October 2010, TRS modified its procedures and started to use the HR-11 report, shortly after the Comptroller's Office informed TRS of deceased pensioners collecting payments. However, the HR-11 report lacks an audit function. Specifically, should the file become corrupted, the report cannot be reproduced to display past information and cannot identify when TRS took action. Therefore, an exception can occur for months before being corrected, but once corrective action is taken, the system cannot retroactively identify the issue. Furthermore, the HR-11 report can be downloaded into Excel and modified from its original form. Although there is no indication that this happened with the reports provided by TRS, the potential for it to occur exists. Consequently, this limits TRS management's ability to oversee and monitor the controls in place to ensure consistent application of procedures. It also highlights the importance for written sign-offs after each report is reviewed.

Dissemination of Personally Identifiable Information

TRS outsources the production of certain death match reports, which requires the dissemination of personal identifiable information to a third party vendor. With the advent of the City's HR-11 report, outsourcing additional death match reports now poses an unnecessary risk. Specifically, on a monthly basis, TRS transmits over 70,000 payroll records including names and social security numbers of pensioners to a private vendor for comparison against SSA death records. Prior to April 2010, the only death match report produced by the City was the Financial Information Service Agency (FISA) Death Match Discrepancy Report. The Death Match Discrepancy Report, which was not cumulative, was only able to inform the pension system of those deaths reported to SSA during the previous month. Therefore, if the report missed an individual or the report was not properly reviewed and corrective action not taken, an individual collecting a pension after the date of death would never be cited in the subsequent Death Match Discrepancy Reports. Consequently, TRS resolved a control weakness by outsourcing the report to a firm, at an annual cost of \$2,700, that can produce reports with results from not only the past month but also previous months. However, since the rollout of the HR-11 report in April 2010, this is no longer necessary.

According to TRS's website privacy statement, "TRS will not share the personal information gathered on these pages with any affiliates or third-party organizations." Although the information passed to the vendor was not obtained through the TRS website, TRS should exercise the same precautions with information it has on file as it does with information it obtains through its website. While there is no indication that this information was ever misused, TRS cannot be assured that the controls over this information are adequate.

Recommendations

TRS should:

1. Ensure that work performed by staff is documented and supervisory reviews are evidenced by sign-off—attesting to compliance with policies and procedures.
2. Coordinate with FISA to determine the feasibility of developing a back-up plan to store the HR-11 reports.
3. Consider using the HR-11 and Death Match Discrepancy Report in place of obtaining the third party vendor reports.

Detailed Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS) except for organizational independence as disclosed in the following paragraph. 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

We are issuing a modified GAGAS compliance statement because of the Comptroller's mandated non-audit responsibility in connection with the TRS Board. In accordance with §13-507 of the New York City Administrative Code, the Comptroller is one of seven trustees of the TRS Board. The Comptroller sits on the Board through a designee. The Comptroller's designee was not involved in planning or conducting this audit, or in writing or reviewing this audit report. Accordingly, we feel that the above issue has had no impact on the objectivity of this audit, or on the conclusions and associated findings disclosed in this report.

The scope period of the audit was July 1, 2010, to January 31, 2011. To gain an understanding of TRS controls over the identification of deceased individuals, we conducted interviews with TRS officials. We also reviewed and evaluated TRS's "Death Match Procedures." We documented our understanding of these controls through a written narrative.

To determine whether TRS's controls over the identification of deceased individuals collecting pension payments were operating effectively, we tested the two death match reports utilized by TRS as of November 2010. We randomly selected 100 of 587 individuals identified on the third party death match reports who presumably died between October 2010 and January 2011. For each person sampled, we reviewed payment records in PPMS to determine whether TRS personnel took timely and appropriate action on those individuals identified in the report. In addition, to determine whether TRS personnel utilized the HR-11 reports, we compared each HR-11 report from November 2010 through February 2011 to verify whether any deceased individuals appeared in one or more consecutive HR-11 reports.

However, because the HR-11 report is generated on a real-time basis, which cannot be recreated or generated to obtain information at a previous point in time, we were unable to solely rely on this report to form our opinion. Therefore, we supplemented our testing with the Death Match Discrepancy Report, which cannot be changed or modified, as both reports match the same sets of data.²

² The Financial Information Service Agency (FISA) produces a Death Match Discrepancy Report which can be accessed from the Report Management and Distribution System (RMDS). FISA receives SSA death reports and compares that data against the data in PPMS to create the RMDS death match discrepancy report. The death report lists individuals who have been reported as deceased during that month and are also receiving pension payments.

To test the completeness of the RMDS Death Match Discrepancy Reports, the Comptroller's Office's IT Audit Division performed a separate computer match of all individuals who received payments from the TRS in 2010 to the SSA database. This match identified 869 individuals who presumably died between October 2010 and January 2011. We randomly selected 25 of these 869 individuals to verify whether each person was no longer active in PPMS as of the month of death or whether each person appeared on the Death Match Discrepancy Reports—*Active PPMS Recipient Not Dead*. We tested 100 individuals (from a total population of 534) cited on each Death Match Discrepancy Report from October 2010 through January 2011. For each individual, we reviewed records in PPMS to determine whether TRS personnel took appropriate action. It should be noted that our audit focused on TRS processes for monitoring and overseeing the identification of deceased individuals.



August 15, 2011

Ms. Tina Kim
Deputy Comptroller for Audits
1 Centre Street, Room 1100
New York, NY 10007 – 2341

Re: Audit Report on NYC Teachers' Retirement System
New York City Teachers' Retirement Systems
Controls over the Identification of Deceased
Individuals Collecting Pension Payments
FM11-111A

Dear Ms. Kim:

TRS' Response to OTC Recommendation #1: Internal Audit (IA) has instructed our IT department to update TRS' computer system, UPS, to incorporate revised Death Match policies and procedures to detect and deter pension fraud and overpayments. These changes will include an audit stamp for each step completed in the process to ensure that work performed by staff is documented. Furthermore, the IA manager's supervisory review shall be indicated by an electronic authorization attesting to the associate's compliance with applicable policies and procedures. In the interim, IA's manager will signoff manually on all reports and indicate the required actions against suspected deceased individuals.

TRS' Response to OTC Recommendation #2: TRS' IT department is internally developing automation to store HR-11 reports historical information in a secure server.

TRS' Response to OTC Recommendation #3: Currently, the HR-11 Report (Chrms) is TRS' primary source for identifying deceased members. However, Comserv, as a secondary source still adds value by reporting timelier additional deceased members subsequent to the generation of the HR-11 report. In some instances, the HR-11 report was generated *after* TRS' processing deadline; and for some months, the HR-11 database was not updated or updated too late for payroll cutoff; thus Comserv is useful to perform the Death Match when the HR-11 database was not updated or updated too late for payroll cutoff. However, if FISA could update its information on a more timely basis, perhaps weekly, Comserv would no longer be needed.

Therefore, TRS is complying with all three OTC recommendations, and TRS is committed and proactive in terminating individuals promptly once their deaths are reported.

If you have any further questions regarding this status report, please feel free to contact me at (212) 612-5503.

Sincerely,

Stan Charles
Deputy Director
Internal Audit Division