

Audit Report

State Retirement Agency

June 2018



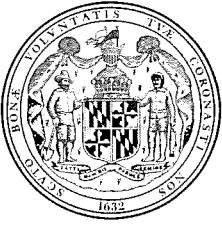
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

June 8, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Retirement Agency for the period beginning April 2, 2014 and ending May 7, 2017. The Agency provides administrative support services and investment functions for the State Retirement and Pension System of Maryland, a cost-sharing multiple-employer public employee retirement system.

Our audit disclosed that the Agency did not always perform documented and timely independent supervisory reviews to ensure the accuracy and receipt of certain employer contributions, which totaled \$594 million in fiscal year 2017. In addition, the Agency identified a significant instance, dating back to 2011, in which, at the time of our audit, it had not enforced the retiree earnings limitation established in State law resulting in an overpayment of retirement benefits.

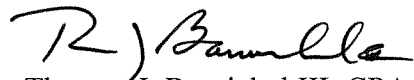
The Agency had not taken recent action to address a longstanding issue regarding the propriety of certain System members' eligibility for service credit for unused sick leave in instances in which the members also received compensation for the same unused sick leave upon retirement. According to the Agency's records as of September 2017, approximately 91,300 active System members worked for local education agencies with policies to compensate employees for at least a portion of unused sick leave upon retirement.

Our audit also disclosed that controls over the processing of payroll under the Statewide Personnel System (SPS) were not sufficient. Specifically, individual adjustments to employee pay were not reviewed for propriety by independent supervisory personnel, and payroll payments from the State's Central Payroll Bureau were not reconciled, in the aggregate, to the payroll reports generated from SPS. Finally, our audit disclosed deficiencies pertaining to the security of

sensitive data retained by an information technology service provider hired by the Agency.

The Agency's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Agency.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. J. Barnickel III". The signature is written in a cursive, flowing style.

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The State Retirement Agency provides administrative support services and investment functions for the State Retirement and Pension System (System) of Maryland, a cost-sharing multiple-employer public employee retirement system consisting of a State pool and a Municipal pool. The State pool includes State agencies, boards of education, community colleges, and libraries; the Municipal pool includes participating local governmental units that have elected to join the System. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland and comprises the following individual systems: Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. Responsibility for the administration and operation of the System is vested in a 15-member Board of Trustees. According to the State's records, the Agency's operating expenditures totaled approximately \$30.7 million during fiscal year 2017.

Financial Statement Audits

The Agency engages an independent accounting firm to perform annual audits of the System's financial statements. The firm expressed opinions that the System's financial statements presented fairly, in all material respects, the respective financial position of the System as of June 30, 2017, 2016, 2015, and 2014, and the changes in plan net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Select System Financial Information

According to its records, as of June 30, 2017, the System had approximately 156,000 retirees and beneficiaries, and approximately 193,000 active participants. The following table provides select System financial information.

Select System Financial Information (expressed in billions)					
Fiscal Year	Total Contributions	Net Investment Income	Benefit Payments	Total Net Assets at June 30	Unfunded Actuarial Accrued Liability
2017	\$2.8	\$4.5	\$3.6	\$49.0	\$19.7
2016	2.6	0.5	3.5	45.4	20.0
2015	2.6	1.2	3.3	45.8	20.1
2014	2.5	5.7	3.1	45.3	19.6

Source: Audited System Financial Statements

Note: The Unfunded Actuarial Accrued Liability is the amount by which the Actuarial Accrued Liability exceeds the Actuarial Value of Assets as determined by the System's actuary.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated December 22, 2014. We determined that the Agency satisfactorily addressed these two findings.

Findings and Recommendations

Employer Contributions

Background

The Maryland State Retirement and Pension System is funded from contributions received from employees and employers participating in the System's retirement and pension plans and from income generated from the investment of the System's assets. The State Retirement Agency's Finance Division is responsible for monitoring the receipt of employee and employer contributions due from State agencies and universities, local boards of education, and other participating governmental units. Most members who are employees of State agencies and universities are paid through the Comptroller of Maryland's Central Payroll Bureau (CPB). For these entities and employees, CPB reports payroll information and remits both employee and employer contributions to the Agency.

Finding 1

The Agency did not always perform documented and timely supervisory reviews to ensure the propriety of employer contributions received from CPB.

Analysis

The Agency did not always perform documented and timely supervisory reviews to ensure the propriety of employer contributions received from CPB. An Agency finance employee was responsible for verifying the accuracy of employer contributions received from CPB, including verifying that the proper rates were used in the calculations. However, these verification procedures were not always subject to documented supervisory reviews to ensure their propriety. In addition, supervisory personnel did not always ensure that the contribution amounts reported agreed with the amounts deposited and recorded in the Agency's financial records.

According to Agency's records, as of June 30, 2017, CPB was reporting payroll information and contributions for approximately 58,000 members of the Employees' Retirement and Pension Systems and Teachers' Retirement and Pension Systems. Employer contributions totaled approximately \$597 million during fiscal year 2017 for these plans.

Our review of verifications performed for the 106 pay periods¹ ending in fiscal years 2017 (52 pay periods) and 2016 (54 pay periods) disclosed 31 pay periods

¹ The two-week pay period start and end dates for universities and State agencies differ.

where there was no documentation that a supervisory review had been performed. In addition, for another 40 of these 106 pay periods, the supervisory review of the verification was performed 95 to 322 days after CPB had reported the employer contributions to the Agency. In instances in which there was no documentation of supervisory reviews, there was also no assurance that the contributions received had been verified to the amounts deposited and recorded in the Agency's financial records. Our review did not disclose any discrepancies between the employer contributions received and deposited.

Recommendation 1

We recommend that the Agency perform timely and documented supervisory reviews to verify the propriety of employer contributions received from CPB and to ensure contributions agree with the amounts deposited and recorded in the Agency's financial records.

Earnings Limitation

Finding 2

The Agency identified a significant instance in which the retiree earnings limitation established by law was not enforced at the time of our audit, resulting in overpayments of retirement benefits.

Analysis

An internal audit conducted by the Agency in calendar year 2017 disclosed that the earnings limitation established by law for System retirees was not enforced for one of the 126 retirees examined that were potentially subject to this earnings limitation. The audit determined that, during the five years following this individual's date of retirement from State service in 2011, the retiree received compensation from another State agency totaling approximately \$400,000 in excess of the earnings limitation without a corresponding reduction in the retiree's benefits. According to the internal audit report, this occurred because the Agency improperly exempted this retiree from the earnings limitation provisions in State law.

According to Agency management, this retiree contacted the Agency upon reemployment and advised that the position in which the retiree was being hired was fully funded through donations to the employing State agency, and not with State funds. The Agency erroneously concluded that the source of funding exempted the retiree from the earnings limitation and placed a memorandum on file in the retiree's account with this explanation. The Agency did not perform any due diligence, such as to determine the funding source for this State position,

nor did it consult its legal counsel on the matter. Our review of State records obtained from the Central Payroll Bureau disclosed that the employee's position was funded by State funds. Furthermore, an Attorney General's opinion, dated August 2, 1995, concluded that the funding source for a position was irrelevant as to whether a retiree was subject to the earnings limitation.

System retirees, as provided for in State law, are commonly subject to an earnings limitation if they are reemployed with the same participating employer subsequent to retirement. A participating employer is one that participates in the Maryland State Retirement and Pension System. Retiring from one unit of State government and taking a position with another State unit is considered reemployment with the same participating employer. The earnings limitation essentially caps the aggregate amount of current earnings and retirement benefits that a retiree may receive at a level specified in State law. The individual's retirement benefit should be reduced for any amount over the cap. The earnings limitation is generally in place for the first five years beginning on January 1 following the member's date of retirement.

The Agency notified the individual of the aforementioned excess compensation in December 2017 and requested repayment of this amount. As of February 21, 2018, repayment had not been received.

After the conclusion of the audit, we were advised by Agency management that certain recent events may result in it rescinding the aforementioned request for repayment of the approximately \$400,000 in excess earnings. This decision hinges on two subsequent events. First, during the 2018 legislative session, legislation was submitted to change State law to allow an exemption from this earnings limitation if the compensation to a reemployed retiree includes no State funds. The legislation, which is effective for individuals who retired on or after October 1, 1994, was passed and approved by the Governor and is effective July 1, 2018. Second, the Agency requested and received documentation from a third party, dated May 8, 2018, advising the Agency that this employee's compensation was fully funded through donations to the employing State agency. The Agency has requested but, as of May 14, 2018, had not received documentation from the State agency that would confirm this assertion.

Recommendation 2

We recommend that the Agency

- a. obtain and review documentation from the State agency confirming that the source of funds for this employee's compensation included no State funds and consult with legal counsel before taking any steps to rescind the aforementioned repayment request;**

- b. prior to making a decision not to limit the earnings of a reemployed retiree, obtain conclusive independent documentation to confirm that the source of the compensation contains no state funds; and**
- c. ensure compliance with the law, by implementing additional reviews and approvals, such as by its legal counsel, of all future earnings limitation exemptions.**

Service Credit for Unused Sick Leave

Finding 3 (Policy Issue)

The Agency did not address a longstanding issue regarding certain System members' eligibility for service credit for unused sick leave in instances in which the System members were also compensated for the same unused sick leave upon retirement.

Analysis

The Agency did not address a longstanding issue regarding whether a System member is eligible for service credit for unused sick leave when the member was also compensated for this same unused sick leave by his or her employer upon retirement. The Agency submitted proposed legislation during the 2008 Legislative Session to revise the relevant statute to address this issue, but the legislation was withdrawn before being presented to the General Assembly. No further legislative action has been initiated since that time, nor has the issue been presented to the System's Board so it could take an official position or recommend action.

State law provides that certain retiring System members are eligible to receive additional service credit for a specified portion of their unused sick leave balance as of the member's retirement date. This additional service credit increases a retiree's monthly benefit allowance payment. Also, many Local Education Agencies (LEAs), whose employees are System members, have provisions within their collective bargaining agreements that allow retiring employees to receive a monetary payout for a portion of their unused sick leave. The portion of unused sick leave for which a retiring employee is eligible for monetary compensation varies by school system and by personnel agreement.

We conducted a survey which determined that, as of September 2017, 16 of the State's 24 LEAs paid their employees (either teachers only, or teachers and other employees) for some portion of their unused sick leave balance that remained at the time of retirement. These LEAs also reported the employees' entire unused sick leave balances to the Agency for inclusion in the calculation of the retirees'

monthly retirement benefit as additional service credit. Accordingly, these LEA retirees receive both immediate compensation for certain unused sick leave, as well as a higher monthly retirement benefit due to the inclusion of the same unused sick leave as additional service credit.

As an example, we noted one LEA retiree who, effective July 2016, received a payment of approximately \$35,000 for 80 days of unused sick leave, which is the maximum number of days allowed by this particular LEA for compensation. For this retiree, the LEA also reported 376 days of unused sick leave to the Agency, including these 80 days, for inclusion in the calculation of the retiree's monthly retirement benefit as additional service credit. As a result, in addition to the \$35,000 payment, this individual received four months of service credit for these 80 days of unused sick leave, increasing the retiree's monthly benefit allowance by approximately \$50.

According to the Agency's records, as of September 2017, approximately 91,300 active members participating in either the Teachers' Retirement and Pension Systems or the Employees' Retirement and Pension Systems worked for LEAs with policies to compensate them for at least a portion of their unused sick leave upon retirement and report that same unused sick leave to the Agency for inclusion as additional service credit. As of September 2017, there were approximately 39,100 current retirees from these 16 LEAs which, upon retirement, received service credit for 246,000 months of unused sick leave. The portion of this unused sick leave for which retirees were compensated and the related monetary payments received was not readily determinable.

We previously obtained joint legal advice from legal counsels assigned to both the Maryland General Assembly and the Agency, dated May 2012. This advice indicated that the law in this area is ambiguous, but that the better interpretation of the law is that leave for which compensation is paid should not be considered "unused" and should not be included in the amount certified to the Agency as such. However, the Agency had not addressed the propriety of this arrangement in place at the aforementioned LEAs.

Recommendation 3

We recommend that the Agency consult with its Board of Trustees as to what action should be taken on this matter, such as proposing legislative changes.

Payroll

Finding 4

Controls had not been established to ensure the propriety of the Agency payroll, including adjustments to employee pay.

Analysis

The Agency had not established adequate controls over the processing of payroll under the Statewide Personnel System (SPS), which was implemented in May 2016. Specifically, manually processed adjustments to employee pay were not reviewed for propriety by independent supervisory personnel. In addition, total biweekly payroll payments from CPB were not reconciled with total payroll as reflected in the payroll reports generated from SPS. According to State records, the Agency's payroll expenditures totaled approximately \$19.5 million during fiscal year 2017.

Adjustments to Employee Pay and Leave Balances Were Not Independently Reviewed

Adjustments to employee pay and leave balances were not reviewed for propriety by independent supervisory personnel. During the period from May 25, 2016 through August 1, 2017, the Agency processed 36 payroll adjustments, such as retroactive payroll payments, which increased employee pay by \$32,632. During this period, the Agency also processed 36 leave balance adjustments, such as leave bank donations, which increased employee leave balances by 2,143 hours.

Specifically, each pay period an Agency employee was responsible for submitting a manually prepared listing of payroll adjustments to the Department of Budget and Management (DBM) for processing in SPS. Although the Agency advised us that the listing was reviewed by supervisory personnel prior to submission, there was no documentation to substantiate that this occurred. In addition, the Agency did not have a procedure in place to verify the propriety of leave balance adjustments that were processed by two Agency employees directly in SPS. The Agency also did not use available system output reports of all payroll and leave adjustments recorded to ensure that only authorized adjustments had been processed.

Total Payroll Disbursements Were Not Verified

Biweekly payroll payments from the State's Central Payroll Bureau were not reconciled, in the aggregate, to the payroll payments reflected in reports generated from SPS. Generally, employees recorded their work time directly into SPS for online approval by their assigned supervisors. Payroll payments were processed by CPB based on the approved work time for the pay period and the salary

information reflected in SPS. However, the Agency did not compare the total payroll, as reflected in the CPB payroll registers, with the SPS payroll summary reports reflecting the amounts that should have been paid based on each employee's approved work time and salary information. While the Agency advised us that detailed biweekly payroll registers received from CPB were reviewed for unusual items, there was no documentation that this occurred.

This reconciliation is particularly important with respect to SPS because certain unique system design features often result in differences between the CPB and SPS reports. For example, we compared the Agency's CPB payroll register with the SPS payroll summary report for the pay period ending January 3, 2017. Our comparison disclosed that the total payroll reflected in the CPB payroll register (\$486,259) exceeded the SPS payroll summary report total (\$458,718) by \$27,541. We were able to reconcile these two amounts after considering the following two situations:

- Under SPS, employees appear on the SPS payroll summary report for their assigned "supervisory organization" which, in some cases, does not correspond with the agencies for which they work. For example, employees from the Office of the Attorney General provided services for and were paid by the Agency but were reflected on SPS payroll summary reports for the Office of the Attorney General supervisory organization. Accordingly, these salaries represented reconciling items between the Agency's SPS payroll summary report and CPB check register.
- SPS payroll summary reports reflect activity relevant to the pay period irrespective of when the transactions were processed. For example, the Agency's SPS payroll summary report that we generated for January 3, 2017 included adjustments to employee pay that were associated with this pay period but were processed in subsequent pay periods. The CPB check register only reflected employee pay adjustments that had been processed during the January 3, 2017 pay period.

Because these reconciliations were not performed, the Agency lacked assurance that payroll payments were proper and were supported by the related time records and salary information maintained within SPS.

Recommendation 4

We recommend that the Agency

- a. ensure that manually prepared listings of payroll adjustments submitted to DBM for processing are first approved by independent supervisory personnel, and that this approval is documented;**

- b. independently verify SPS output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed, at least on a test basis; and**
- c. compare payroll registers received from CPB each pay period with SPS payroll summary reports, reconcile any differences, and ensure that this reconciliation is documented.**

Information Systems Security and Control

Background

The Agency's Information Systems Division is responsible for the development, maintenance and support of its information systems. The Agency's critical application is its Maryland Pension Administration System which calculates and processes retirement and pension benefits for retirees and beneficiaries and contributions from current members. The Agency's internal network provides employees access to various information technology services including business applications and databases, network file, print and email services, Internet access and connectivity to the Statewide Government Intranet.

The Agency uses an outside information technology (IT) service provider for death match services which includes the identification and reporting of deceased individuals not previously known to the Agency. The Agency began using its current death match service provider in May 2010, with the contract being renewed on October 1, 2015. The Agency provides a monthly file to this service provider containing sensitive personally identifiable information (PII) including the names, social security numbers, and birth dates of System participants, retirees or beneficiaries who were either receiving benefits or were eligible for future benefits. According to the service provider's records, as of August 25, 2017, sensitive PII records for 494,944 unique individuals were stored in its computer system. The current contract between the Agency and the service provider required the provider to annually obtain, either a System and Organization Controls (SOC 2 Type 2) review and report or another equally comprehensive review and report.

Finding 5

The Agency lacked assurance that sensitive PII provided to and maintained by the death match service provider was properly secured against operational and security risks.

Analysis

The Agency lacked assurance that sensitive PII provided to and maintained by the death match service provider was properly secured against operational and security risks. Specifically, Agency personnel advised us that they had not obtained any independent security review reports issued for the service provider at any time during or after our current audit period. Based upon our inquiry, the Agency requested and, on July 23, 2017, obtained from the service provider a security assessment report dated May 15, 2017 for work performed by an independent security assessor from August 2016 to May 2017. We were advised that as of January 31, 2018, the report had not yet been subject to a formal documented review by the Agency. As a result of the Agency not obtaining or reviewing the security assessment report, significant operational and security risks could exist and remain undetected resulting in limited assurance of data security.

The security assessment report provided by the death match service provider indicated that the provider had obtained an independent comprehensive security assessment that was based upon a controls assessment made according to certain security standards, including the Federal Information Security Management Act's (FISMA) detailed requirements as specified by the Federal National Institute of Standards and Technology (NIST). We reviewed the report and found that the review addressed a broad range of FISMA required operational and security controls, and no control weaknesses were cited.

Guidance for examinations of service providers' information technology controls is available from multiple organizations including the American Institute of Certified Public Accountants (AICPA), NIST, and other sources. Under the AICPA guidance, service providers may contract for an independent controls review report referred to as a System and Organization Controls (SOC) report. SOC reports of various types, scopes, and review and testing levels exist, including SOC 2 Type 2 reports which can include an evaluation of system security, availability, processing integrity, confidentiality, and privacy trust principles. Service provider controls assessed using other equally comprehensive review and report methods need to assess and test pertinent security trust principles in a similar fashion.

Recommendation 5

We recommend that the Agency

- a. ensure the death match service provider annually obtains an independent security review and report (such as a SOC 2 Type 2 report or another equally comprehensive review and report) in accordance with the terms of its contract, and**
- b. obtain and review copies of the independent security review reports to ensure that the reviews and related reports adequately address all relevant and critical security controls and further ensure that the service provider implemented all critical recommendations made in these reports.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Retirement Agency for the period beginning April 2, 2014 and ending May 7, 2017. The audit was conducted in accordance with generally accepted government auditing standards. 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Agency's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included benefits paid to retirees and beneficiaries, contributions required from participating employers, investments, critical information systems, and payroll. We also determined the status of the findings included in our preceding audit report.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Agency's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Agency's automated Maryland Pension Administration System for the purpose of testing pension contributions and benefits, and from the Statewide Personnel System (SPS) for the purpose of testing related payroll and leave

transactions, including the conversion of employee data to SPS. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

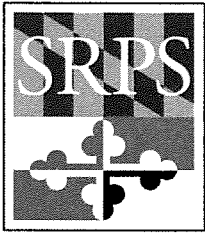
The Agency's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Agency's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Agency that did not warrant inclusion in this report.

The Agency's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Agency regarding the results of our review of its response.



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R. Dean Kenderdine
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APPENDIX

May 31, 2018

Thomas J. Barnickel, III, CPA
Legislative Auditor
State of Maryland Office of Legislative Audits
State Office Building, Room 1202
310 West Preston Street
Baltimore, Maryland 21202

Dear Mr. Barnickel:

This letter provides the agency response to the Audit Report dated May 2018 regarding the fiscal compliance audit of the Maryland State Retirement Agency for the period beginning April 2, 2014 and ending May 7, 2017. The Audit Report presents five audit findings and the recommendations of the Office of Legislative Audits (OLA) in regard to each finding. We are pleased to present below, the Agency's responses to each finding and recommendation.

Finding 1 – Employer Contributions

The Agency did not always perform documented and timely supervisory reviews to ensure the propriety of employer contributions received from the Central Payroll Bureau.

Recommendation 1

We recommend that the Agency perform timely and documented supervisory reviews to verify the propriety of employer contributions received from the CPB and to ensure contributions agree with the amounts deposited and recorded in the Agency's financial records.

Agency Response

The Agency concurs with this recommendation and has retroactively implemented the OLA recommended actions back to July 2017.

Finding 2 – Earnings Limitation

The Agency identified a significant instance in which the retiree earnings limitation established by law was not enforced at the time of our audit, resulting in overpayments of retirement benefits.

Recommendation 2

We recommended that the Agency

a. obtain and review documentation from the State agency confirming that the source of funds for this employee's compensation included no State funds and consult with legal counsel before taking any steps to rescind the aforementioned repayment request;

- b. prior to making a decision not to limit the earnings of a reemployed retiree, obtain conclusive independent documentation to confirm that the source of the compensation contains no State funds; and**
- c. ensure compliance with the law, by implementing additional reviews and approvals, such as by its legal counsel, of all future earnings limitations.**

Agency Response

The Agency concurs and will, going forward, have all earnings limitation exemptions approved by the executive director, in consultation with legal counsel. Appropriate Agency staff have been advised of this approval process in writing. With regard to the resolution of the specific earnings limitation case cited, the executive director has requested all documentation of the employer in question. Once obtained, the documentation will be reviewed and approved, as appropriate, by the executive director.

Finding 3 –Service Credit for Unused Sick Leave

The Agency did not address a longstanding issue regarding certain System members’ eligibility for service credit for unused sick leave in instances in which the System members were also compensated for the same unused sick leave upon retirement.

Recommendation 3

We recommend that the Agency consult with its Board of Trustees as to what action should be taken on this matter, such as proposing legislative changes.

Agency Response

The Agency did bring this matter to the attention of the Board of Trustees in August of 2007, recommending legislation be requested for the 2008 session of the General Assembly. The Joint Committee on Pensions did introduce the Board-requested legislation which would have amended the appropriate sections of pension law to provide that unused sick leave credit is granted for the days of sick leave not used during employment nor paid for at time of retirement by the employer. The bill was withdrawn.

The Agency agrees to bring this issue before the Board of Trustees again for reconsideration and possible legislation for the 2019 session of the General Assembly.

Finding 4 – Payroll

Controls had not been established to ensure the propriety of the Agency payroll, including adjustments to employee pay.

Recommendation 4

We recommend that the Agency

- a. ensure that manually prepared listings of payroll adjustments submitted to the Department of Budget and Management for processing are first approved by independent supervisory personnel, and that this approval is documented;**
- b. independently verify SPS output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed, at least on a test basis; and**

c. compare payroll registers received from CPB each pay period with SPS payroll summary reports, reconcile any differences, and ensure that this reconciliation is documented.

Agency Response

The Agency concurs. The Agency has modified its payroll review process to require that the bi-weekly payroll submission of adjustments to DBM is reviewed and signed-off by independent supervisory personnel documenting these approvals prior to submission of the adjustments to DBM. Additionally, the monthly payroll and leave balance adjustments output reports are being independently verified against supporting documentation on a quarterly test basis. These reviews will be evidenced on the related payroll and leave balance reports and retained for verification. Finally, payroll registers received from the Central Payroll Bureau each pay period are being compared with Statewide Personnel System summary reports, differences are being reconciled, and the reconciliation is being documented.

Finding 5 – Information Systems Security and Control

The Agency lacked assurance that sensitive PII provided to and maintained by the death match service provider was properly secured against operational and security risks.

Recommendation 3

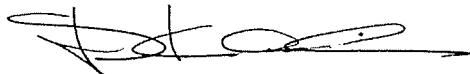
We recommend that the Agency

- a. ensure the death match service provider annually obtains an independent security review and report (such as a SOC 2 Type 2 report or another equally comprehensive review and report) in accordance with the terms of its contract, and**
- b. obtain and review copies of the independent security review reports to ensure that the reviews and related reports adequately address all relevant and critical security controls and further that the service provider implemented all critical recommendations made in these reports.**

Agency Response

The Agency concurs and will ensure that not only the current death match service provider, but any entity receiving sensitive personally identifiable information (PII) from the Agency, annually submits to the Agency an independent security review. In addition, all such independent security reviews will be reviewed and approved by both the State Benefits Administrator and the Chief Information Systems Officer of the Agency, or their designees. An inventory of all relationships with outside entities that involve the sharing of PII will be maintained by the Agency Finance Division.

Sincerely,



R. Dean Kenderdine
Executive Director

cc: Members, Board of Trustees
David Rongione, Chief Internal Auditor, SRA

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