



Audit Report



OIG-10-016

Management Letter for Fiscal Year 2009 Audit of the Office of
D.C. Pensions' Financial Statements

December 7, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 7, 2009

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR
OFFICE OF THE D.C. PENSIONS**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 Audit of the
Office of D.C. Pensions' Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Office of D.C. Pensions' (ODCP) Fiscal Year 2009 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2009, and for the year then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses other matters involving internal control over financial reporting and its operations that were identified during the audit but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 13, 2009

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP), for the year ended September 30, 2009, and have issued our report thereon dated November 13, 2009. In planning and performing our audit of the consolidated financial statements of the ODCP, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the ODCP's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A to this report.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all deficiencies in policies or procedures that may exist. We aim, however, to use our knowledge of the ODCP's organization gained during our work to make comments and suggestions that we hope will be useful to you. The ODCP's responses to our findings and recommendations are included in Exhibit A. We did not audit the ODCP's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

FINDINGS AND RECOMMENDATIONS

2009-01 *Continue to Improve Controls Over New Annuitant Payment Processing*

During our testing of a sample of 69 new annuitant benefit payments processed by the District of Columbia Retirement Board (DCRB) for the Police, Firefighters, and Teachers retirement plans, we noted three instances where the DCRB 2nd review failed to identify errors made by the DCRB analysts processing the claims, resulting in the following exceptions:

- 1) For one sample item tested, the DCRB analyst incorrectly excluded the new annuitant's health benefit deduction when calculating the beneficiary payment, which resulted in a one-time overpayment to the beneficiary in the amount of \$134.66.
- 2) For one sample item tested, the DCRB analyst mis-applied the cost of living adjustment (COLA) resulting in a survivor of an annuitant being over-paid a total of \$4,076.85, which affected 7 months of benefit payments.
- 3) For one sample item tested, the DCRB analyst processing the new annuitant incorrectly prorated the first payment resulting in a one-time overpayment in the amount of \$1,072.81.

The Memorandum of Understanding (MOU) between ODCP and DCRB – Considering Interim Benefit Administration of Retirement Plan dated December 31, 2008, specifies the obligations of the DCRB, MOU section 3.1.3(d) requires DCRB to enforce all terms of the District Retirement Programs and the Replacement Plan to ensure accurate payments of Federal Benefit Payments and District Payments.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that ...iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) (the Standards) states: "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as

appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.”

The Standards also provides examples of control activities, which include “reviews by management at the functional or activity level.”

The three exceptions discussed above were a result of the DCRB analyst inputting incorrect information in the benefit payment calculation and the 2nd reviewer not identifying the input error.

If incorrect information is input into System to Administer Retirement (STAR) and not discovered by the 2nd reviewer, new annuitants may not be paid the proper amounts and benefit payments and the related benefit expense could be misstated in the ODCP financial statements. In addition, ODCP’s actuarial calculations are based off the demographic information in STAR. If the demographic information in STAR is inaccurate then the actuarial calculations based upon the demographic information in STAR could be inaccurate.

Recommendations

We recommend that the ODCP: (1) continue training the DCRB 2nd reviewers so they fully understand their role and responsibilities of performing the 2nd review of the benefit payment calculation; and (2) create a beneficiary checklist that will help the reviewer focus his attention on areas that have a higher degree of miscalculating the benefit payment.

Management Response

Management concurs with the findings and recommendations. As a result of these findings, DCRB quickly corrected the benefit payments for the three exceptions noted above and communicated the changes in the payment amounts to the retirement benefits recipients. ODCP plans to increase focus on benefit processing for beneficiaries in FY2010 by providing additional training to analysts and second level reviewers and creating a checklist to assist analysts in processing cases for beneficiaries.

2009-2 *Improve Controls Over the Processing of Back Payments During the Annuitant Reinstatement Process*

During our testing of 15 off cycle benefit payments processed by the DCRB for the Police, Firefighters, and Teachers retirement plans, we noted the following breakdown in internal controls over the processing of back payments during the annuitant reinstatement process:

DCRB initiated a transaction to terminate payments in STAR effective March 1, 2006, for an annuitant who was not cashing their annuitant payments. Shortly before, the ODCP had placed a stop payment on 14 monthly annuitant checks issued to this annuitant that had not been cashed relating to the months of August 2005 through March 2006, and May through October 2004. After DCRB obtained the *Verification of Receipt of Annuitant Payment* letter from the annuitant on January 27, 2009, an initial back payment was issued to the annuitant related to the period from March 1, 2006 through March 2, 2009. However, no payment was made to the annuitant for the 14 stale-dated checks. After we brought this issue to the attention of the ODCP and DCRB, an off-cycle payment in the amount of \$47,032 was processed by DCRB for this annuitant on August 25, 2009. Upon further investigation it was discovered that the off cycle payment of \$47,032 incorrectly included 2 months of re-issued checks resulting in an overpayment to the annuitant of \$5,774. DCRB is in the process of issuing an Overpayment of Annuity Letter to the annuitant to reclaim the overpaid amount.

The Memorandum of Understanding (MOU) between ODCP and DCRB – Considering Interim Benefit Administration of Retirement Plan dated December 31, 2008, specifies the obligations of the DC Retirement Board, MOU section 3.1.3(d) requires DCRB to enforce all terms of the District Retirement Programs and the Replacement Plan to ensure accurate payments of Federal Benefit Payments and District Payments.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that ...iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) (the Standards) states: "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

The Standards also provides examples of control activities, which include "reviews by management at the functional or activity level."

These errors were a result of ineffective review over the processing of back payments during the annuitant reinstatement process.

If the payment related to the reinstatement of annuitants is not done timely and if payments for the replacement of stale dated checks is incorrect, then benefit payments and the related benefit expense could be misstated, which can result in misstatements in ODCP's financial statements and annuitants not receiving the correct benefit payment amounts.

Recommendation

We recommend that the ODCP improve internal controls over the processing of back payments during the annuitant reinstatement process to ensure that the correct back payments are issued to annuitants. Specifically; 1) staff should be trained on the processing and review of reinstated annuitants, and 2) ODCP's monthly quality review should include the off-cycle payment population.

Management Response

Management concurs with the finding and recommendations. As a result of this finding, Bureau of Public Debt (BPD) quickly communicated with the annuitant to notify her of the overpayment and took initial steps to collect the overpayment. ODCP also worked with DCRB and BPD to review and update procedures for annuitant reinstatements to ensure annuitants receive the correct payments timely. ODCP plans to expand its quality review program to include off-cycle payments to ensure these payments are being processed correctly.

2009-3 *Improve Controls Over Developer Access to the STAR Production Server*

During our review of STAR access rights, we identified one developer who had access to the Windows 2003 production web server that supports the STAR application. We were able to review information that showed that the account was disabled, but enabled on June 30, 2009 and disabled/removed on August 13, 2009.

Office of Management and Budget (OMB) Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, states that, "Least privilege is the practice of restricting a user's access (to data files, to processing capability, or to peripherals) or type of access (read, write, execute, delete) to the minimum necessary to perform his or her job."

OMB Circular A-130, Appendix III also states, "Incorporate controls such as separation of duties, least privilege, and individual accountability into the application and application rules as appropriate."

Based on discussions with management, while troubleshooting an access issue with a STAR subsystem related to but not directly connected with STAR, a BPD Office of IT System Administrator inadvertently enabled a developer's account on the wrong web

server. When this access was discovered in August, this account (along with other developer accounts that had not been enabled) was deleted on August 13, 2009.

Providing developers with access to the production environment results in a lack of segregation of duties which increases the risk for program changes to be introduced into the production environment without proper authorization.

Recommendation

KPMG recommends ODCP delete disabled users or require the disabled user to go through the appropriate levels of approval before the user account is re-activated.

Management Response

Management concurs with the finding and recommendation. The access noted above was accidentally granted and BPD quickly removed the identified developer's access soon after the issue was identified. At the same time the developer's access was removed, BPD also removed all disabled developers' accounts from the production web server to eliminate the possibility of accidentally enabling the developers' accounts in the future. As a result, if a developer has a need to access the production web server, the developer is required to follow established access procedures before access to the server is granted.