

AUDIT REPORT

Oregon Public Employees Retirement System: Change of Director Review



Bill Bradbury, Secretary of State
Cathy Pollino, Director, Audits Division

Summary

PURPOSE

This review was conducted in compliance with *Oregon Revised Statute* 297.210, which requires the Secretary of State to perform an audit or review when the executive head of a state agency leaves that position for any reason.

Fred McDonnal, who was appointed director of the Public Employees Retirement System (PERS) on February 6, 1993, retired from that position effective November 30, 1999.

RESULTS IN BRIEF

Our review identified control improvements that PERS could make to ensure the cancellation of computer system access to separated employees. We determined that the former director generally claimed travel and other reimbursements, approved payroll disbursements, entered contracts, and used state-issued credit cards in accordance with PERS and state policies during the six months prior to separation. In addition, it appeared that the prior director returned to PERS all state fixed assets assigned to him.

We noted other matters involving internal controls, which we have communicated to the management of PERS in a separate letter, Management Letter No. 459-2001-11-01, dated November 1, 2001.

We also reviewed the agency's follow-up actions in response to findings presented in a prior audit report No. 2000-23, titled *Public Employees Retirement System Information Technology Application Control Review*, issued in June 2000. PERS has made progress to resolve some of the report's findings.

RECOMMENDATIONS

We recommend that PERS develop procedures to document the removal of access to computer systems.

AGENCY RESPONSE

PERS generally agrees with the recommendation.

Background

The Oregon Public Employees Retirement System (PERS) administers retirement benefits for 841 public employers, including state agencies, public school districts, and the majority of Oregon cities, counties, and other political subdivisions. PERS membership totals 201,921 members who are entitled future benefits. Members and beneficiaries receiving monthly retirement benefits totaled 81,116 as of June 30, 2000.

The PERS director is appointed by the Public Employees Retirement Board. Board members are appointed by the governor and confirmed by the state Senate.

Audit Results

We determined that the former director generally claimed travel and other reimbursements, approved payroll disbursements, entered contracts, and used state-issued credit cards in accordance with PERS and state policies during the six months prior to separation. In addition, the prior director returned to PERS all state fixed assets assigned to him upon his separation.

Opportunities to Improve Process Controls

Computer Systems Access

During our review to ensure that the former director's access to PERS' computer systems had been properly cancelled upon resignation, we found that the agency could improve its system

security controls. Agency personnel told us that the former director's access to PERS' systems was removed, but there were no checklists or other documentation to support removal of access.

We recommend that PERS management develop a policy and procedure to document removal of access to computer systems.

Agency's Response:

PERS agrees a formal written policy and procedure are needed to document removal of computer systems access upon termination. A new policy has recently been developed. Although a procedure for documenting notification of employee terminations exists, it is dated and not consistently followed. PERS plans to update the procedure and distribute it to management.

**Follow Up to
Prior Audit Findings**

This section reports follow-up actions taken by PERS for previously unresolved findings presented in a prior Audits Division report, No. 2000-23, titled *Public Employees Retirement System Information*

Technology Application Control Review, issued in June 2000.

Agency's Response:

PERS generally agrees, except as noted by individual sections within the audit report. Although many changes have been made to date, outstanding exceptions are currently being resolved and

would have been completed had PERS been given more time to respond to the IT Audit recommendations before audit follow-up procedures began.

Audit Findings	Audit Recommendations	Status
Chapter I: System Development and Maintenance		
<p>System Development and Maintenance. PERS System Development Life Cycle (SDLC) standards and procedures do not adequately address most of the necessary SDLC elements.</p>	<p>Develop and implement a comprehensive SDLC methodology before proceeding further with system development plans.</p>	<p>Partially Resolved. PERS is developing three separate methodologies to address specific systems or projects. The three methodologies are in varying stages of completion and implementation. The agency did not voluntarily suspend system development plans while developing the methodologies.</p>
<p>Agency's Response: <i>The need to strengthen the agency's IT platform, and the importance and the complexity of the task, make it absolutely essential that these efforts continue.</i></p>		
Chapter II: Security		
<p>Access to Programs and Databases. PERS management has not adequately emphasized security for Retirement Information Management System (RIMS). PERS does not have a comprehensive set of policies and procedures, and has not assigned to the Security Officer the responsibility for security which includes monitoring access violations and periodic review of access privileges to ensure that they remain appropriate.</p>	<p>Develop policies and procedures to establish and maintain effective security over its programs and data files. Effective security should include:</p> <ol style="list-style-type: none"> 1. Granting users the minimum amount of access to perform their job functions. 2. Maintaining and periodically reviewing reports detailing the users that have access to the data files and programs. 3. Immediately revoking existing unidentified or unauthorized personnel's access. 4. Eliminating generic IDs. 5. Reaching a formal agreement with DAS that limits the number of DAS employees with the ability to access and alter PERS data and programs. 	<p>Partially Resolved. PERS has done the following to establish and maintain effective security over its programs and data files:</p> <ol style="list-style-type: none"> 1. Developed policies and procedures addressing security. However, some of these policies contain weaknesses and policies were not developed to address some key security issues. 2. Maintained and reviewed reports at least quarterly detailing users that have access to data files and programs. 3. Revoked existing unidentified or unauthorized personnel's access. 4. Eliminated all generic IDs except one that is used in a test environment. 5. PERS is discussing a formal agreement with DAS.

Agency's Response:

PERS agrees. However, as a note of clarification, this finding references programmers' access. Although programmers are granted only the access they need, there is no written access procedure for programmers, and authorization of access granted to programmers is not documented. Improved access procedures are being developed for the programming activity. Also, a separate acceptance region is being put in place, which will segregate access and improve change controls.

Audit Findings (continued)	Audit Recommendations (continued)	Status (continued)
<p>RIMS Access. PERS management does not always properly grant or effectively monitor user access to RIMS. In addition, management does not review security reports for unauthorized access attempts or other potential security violations.</p>	<p>Specifically assign responsibility for ensuring that logical access security for RIMS is properly granted and maintained, and security reports reviewed.</p> <p>Ensure that user access privileges are regularly evaluated for appropriateness.</p> <p>Immediately revoke unidentified or inappropriate access.</p>	<p>Partially Resolved. Although PERS has assigned responsibility for monitoring and reviewing logical access, the reviews do not occur on a consistent basis.</p> <p>PERS' security officer regularly reviews security reports; however, the reports contain weaknesses.</p> <p>PERS has not ensured that user access privileges are regularly evaluated for appropriateness or that unidentified or inappropriate access is immediately revoked.</p>

Agency's Response:

PERS generally agrees and plans to modify the security reports by removing the weaknesses noted.

<p>Security Policies. PERS management has not established an adequate framework of policies and procedures to safeguard information against unauthorized use, disclosure, modification, damage, or loss.</p>	<p>Specifically assign responsibility for developing and updating security policies and procedures.</p> <p>Develop and distribute a security manual for users to convey the policies and procedures to all PERS employees.</p>	<p>Partially Resolved. PERS formally assigned the responsibilities of developing and updating security policies and procedures to a security manager. However, the agency has not fully developed or distributed a security manual.</p>
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Agency's Response:

Policies and procedures have been updated and new procedures documented. When approved, they are placed on the intranet for all staff to access. A draft of a comprehensive security manual has been completed and is awaiting administrative review.

Chapter III: Application Controls

<p>Source Documentation. PERS policies and procedures do not require that staff establish control over retirement packets upon receipt, maintain control through processing, and ensure that all source documents reach permanent storage.</p> <p>PERS cannot provide reasonable assurance that all member information is completely recorded to support completed transactions.</p>	<p>Implement policies and procedures to ensure that each retirement packet is logged upon receipt and tracked throughout processing and microfilming, including reconciliations of packets received to packets processed and packets microfilmed.</p> <p>Take steps to ensure that all documents are microfilmed and retained in accordance with the record retention schedules.</p>	<p>Not Resolved. PERS did not develop policies and procedures for tracking retirement packets. Additionally, the agency did not modify existing procedures to ensure that all documents are microfilmed and retained as required.</p>
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Agency's Response:

PERS generally agrees. A "workflow" component is still in the agency's judgment a highly desirable element of a modern data process platform. It will allow all documents to be scanned immediately upon receipt and placed in an easily accessible database.

Audit Findings (continued)	Audit Recommendations (continued)	Status (continued)
<p>Processing Controls. BCSS does not provide reasonable assurance that benefits will be processed accurately and in a timely manner.</p> <p><i>Agency's Response:</i></p> <p><i>PERS generally agrees. PERS is coping with an antiquated computer system and limited resources. The outstanding issues are being dealt with the best as possible, given available working conditions.</i></p>	<p>Assess the risks associated with the existing RIMS processing deficiencies and implement either automated or manual controls to mitigate those risks.</p>	<p>Partially Resolved. Of the 10 deficiencies noted in the audit report, PERS has fully resolved only one of the items, and has partially resolved six. The agency has not resolved three of the 10 deficiencies.</p>
<p>Error Detection and Correction. Management does not ensure that each out-of-balance transaction is investigated and properly corrected on a timely basis. Further, PERS management has not ensured that proper corrections are made to reserves when out-of-balance transactions are being resolved.</p> <p><i>Agency's Response:</i></p> <p><i>Correction of errors is verified by a lead staff member. Quality reviews are performed by one of the three managers responsible for this universe of transactions. Supervisor reviews are made for challenging out-of-balance transaction errors.</i></p> <p><i>Staff received reconciliation training in Oct. 2000. Current procedure requires use of a data modification sheet and/ or a staff comment form for data corrections and benefit adjustments.</i></p>	<p>Ensure that all out-of-balance transactions are identified, investigated, and resolved in a timely manner.</p> <p>These procedures should:</p> <ul style="list-style-type: none"> • Ensure that member, employer and benefit reserves are corrected. • Assign responsibility for correcting errors, including documentation standards and supervisory reviews. 	<p>Partially Resolved. PERS developed procedures to correct some of the causes of the out-of-balance transactions; however, the documentation is not comprehensive and there is no additional review of the error corrections.</p>
Chapter IV: Other Matters for Consideration		
<p>Computation of Money Match Lump-Sum Benefits. For retirements calculated using the lump-sum money match (LSMM) method, PERS charges the employer's reserve and calculates the annuity using the date of distribution rather than the date of retirement.</p>	<p>Change the method of calculating LSMM annuity calculations to make it congruent with the other annuity calculations. This should include:</p> <ul style="list-style-type: none"> • For all current and future calculations of retirement benefits, use the date of retirement. • Retirement benefits that PERS calculated under the previous method should be recalculated and the associated employer reserves corrected. • Consult with the Attorney General's office regarding the possible recovery of benefit overpayments from the retirees. 	<p>Resolved. PERS implemented a new method of calculating LSMM annuity benefits that makes these calculations congruent with other annuity calculations. PERS consulted with the Attorney General's office and determined that the prior calculation method was allowable.</p>

Audit Findings (continued)	Audit Recommendations (continued)	Status (continued)
<p>Printer Purchase. A PERS employee directly purchased a printer from a non-price agreement vendor without the approval of the Auxiliary Services Manager. In addition, he purchased the item from another PERS employee; this same person is listed as his PERS retirement beneficiary.</p>	<p>PERS management should enforce its purchasing policies.</p>	<p>Resolved. PERS' director has reiterated to management the importance of following the agency's purchasing policies.</p>
<p>Accounts Receivable Management. PERS accounts receivables have not been properly managed or supervised.</p>	<p>Procedures should be implemented to ensure that accounts receivables are managed in accordance with state laws and regulations.</p>	<p>Partially Resolved. PERS took steps to improve management over accounts receivables; however, management has indicated that there is a lack of available resources to fully address this issue.</p>
<p>Agency's Response: <i>PERS generally agrees. There is an improved process in place for liquidating receivables. A project has been assigned to process income tax receivables.</i></p>		

Objectives, Scope and Methodology

The audit was conducted to comply with *Oregon Revised Statute 297.210*, which requires the Audits Division to perform an audit when the executive head of an agency leaves, regardless of the reason. Our audit objectives were to assure that appropriate actions were taken to cancel the former director's access to state systems and return any assets in his possession, and assure that transactions authorized by the former director during his final six months of service were reasonable and complied with applicable laws and regulations. Specifically, we:

- Reviewed the former director's access to state and agency

computers system to ensure proper termination;

- Reviewed travel claim and other reimbursements payable to the former director during the final six months of service;
- Reviewed salary payable to or directly authorized by the former director during his last six months of service and reviewed vacation time accrued and paid to the former director;
- Reviewed contracts entered into by the former director and his immediate staff;
- Reviewed the use of state-issued credit cards by the former director during his final six months of service to determine whether purchases were in compliance with state law, approved, and reasonable;

- Determined whether fixed assets assigned to the former director were returned to the PERS upon his separation;
- Reviewed PERS payments for staff business meals and other events, due to issues identified during our fieldwork; and
- Performed follow-up procedures on findings from a prior Audits Division report titled, *Information Technology Application Control Review*, issued June 2000.

We conducted our audit from August 2000 to June 2001 in accordance with generally accepted government auditing standards.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.

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The courtesies and cooperation extended by the officials and staff of the Oregon Public Employees Retirement System were commendable and much appreciated.

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