



**State of Delaware
Office of Auditor of Accounts
Kathleen K. McGuinness, RPh, CFE**

Working Hard to Protect YOUR Tax Dollars

Performance Audit

Were pension payments made to deceased pensioners?

November 5, 2019

The Auditor of Accounts (AOA) performed a performance audit for Fiscal Year 2019 of the State of Delaware Office of Pensions to determine whether its processes and internal controls were effective in ensuring pension payments were not made to deceased pensioners and/or their beneficiaries.



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

KATHLEEN K. MCGUINNESS, CFE, RPH
STATE AUDITOR

To the Office of Pensions:

The attached report provides the results of our performance audit on whether benefit payments were made to deceased pensioners from the State of Delaware Office of Pensions for the period July 1, 2018 through June 30, 2019.

My office is authorized under 29 Del. C., c. 29 to perform post audits of all the financial transactions of all State agencies. Random audits shall be scheduled and conducted by the State Auditor.

We conducted this performance audit 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.

This report can be accessed online through the Auditor of Accounts website at <http://www.auditor.delaware.gov>.

Sincerely,

A handwritten signature in blue ink, appearing to read 'K. McGuinness'.

Kathleen K. McGuinness, RPh, CFE
State Auditor

November 5, 2019

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Abbreviations:

AOA	Auditor of Accounts
NTIS	National Technical Information Service
DPERS	Delaware Public Employees’ Retirement System
DMF	Death Master File
SSA	Social Security Administration

The mission of the Delaware Office of Auditor of Accounts

The Delaware Auditor of Accounts serves Delawareans by ensuring accountability in the use of taxpayer dollars through independent assessments of financial operations, performance management and statutory compliance of state government.

For further information on this release please contact:

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Performance Audit Overview

The United States Government Accountability Office develops and promulgates government auditing standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are referred to as generally accepted government auditing standards (GAGAS).

Performance audits are audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in assessing a program's effectiveness and/or provide recommendation to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

We conducted this performance audit in accordance with GAGAS. 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.

Audit Authority

AOA is authorized, under 29 Del. C., c. 29, to perform post audits of all the financial transactions of all State agencies.

Background

The Delaware Public Employees' Retirement System (DPERS) was created to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. The Pension Board of Trustees is responsible for the general administration of the DPERS which encompasses the following plans/funds:

- State Employees' Pension Plan
- Special Fund
- New State Police Pension Plan
- Judiciary Pension Plans (Closed and Revised)
- County & Municipal Police and Firefighters' Pension Plans
- County & Municipal Other Employees' Pension Plan
- Diamond State Port Corporation Pension Plan
- Closed State Police Pension Plan
- Delaware Volunteer Firemen's Fund

The disbursement from such plans/funds primarily include recurring benefit payments, refunds of member contributions to terminated employees, and administration costs.

According to the *Delaware Public Employees' Retirement System Forty-Seventh Comprehensive Annual Financial Report 2018*,¹ the total pension benefits paid to the 29,991 retirees and beneficiaries in Fiscal Year (FY) 2018 was \$674.1 million.

Audit Objective

The objective of this performance audit was:

- Determine whether the State of Delaware Office of Pensions has proper processes and internal controls in place to prevent pension benefit payments to deceased pensioners and/or their beneficiaries (pensioners).

Audit Scope

AOA obtained benefit payments made to pensioners from DPERS during FY 2019 (July 1, 2018 to June 30, 2019).

Audit Methodology

AOA obtained an understanding of the Office of Pensions based on the following:

- Review of the applicable sections of the Delaware Code
- Review of the *Delaware Public Employees' Retirement System Forty-Seventh Comprehensive Annual Financial Report 2018*
- Review of Office of Pensions' procedures
- Review of the Office of Pensions' Internal Audit Plans for FY 2018 and FY 2019
- Interviews and discussion with Office of Pensions' personnel

AOA established two methodologies to assist in testing the performance audit objective. One methodology tested whether there were any pension benefit payments made in June 2019 to deceased pensioners. The other methodology tested whether pension benefit payments were stopped in a timely manner for pensioners and their beneficiaries who passed away during FY 2019. Pensioners are entitled to the full monthly pension payment in the month of their death.

¹ *Delaware Public Employees' Retirement System Forty-Seventh Comprehensive Annual Financial Report 2018* was found at <https://open.omb.delaware.gov/FinancialReports/AnnualFinancialReports.shtml>.

Details of Testing and Results

Testing of pensioners receiving payments

We obtained a listing of pension benefit payments made in June 2019 from the Office of Pensions. We reconciled the pension benefit payments to the Office of Pensions' database. We then compared the listing of 30,629 pensioners to the National Technical Information System (NTIS) Death Master File (DMF) based upon name, date of birth and social security number. The DMF is a computer database file made available by the Social Security Administration (SSA). The database file contains over 83 million records of deaths that have been reported to the SSA.

Results

Of the 30,629 pensioners who received pensions benefit payments in June 2019, the DMF identified six pensioners who were deceased as of June 30, 2019. Five of the six pensioners passed away in June, and we verified their pension benefit payment was timely stopped in July 2019. One pensioner who passed away on May 31, 2019 incorrectly received the June 2019 payment because the Office of Pensions did not receive a timely notification of the person's death. However, the Office of Pensions was able to recoup the money from the deceased's banking institution.

Based on a comparison of the 30,629 pensioners who received pension benefit payments in June 2019 to the DMF, we determined that, except for the one individual noted above, no pension benefit payments were disbursed to pensioners who were deceased.

Testing of deceased pensioners' payments

We obtained from the Office of Pensions, a list of pensioners and beneficiaries who passed away in FY 2019 and selected a sample of 40 individuals for testing. We obtained and reviewed the selected pensioners' Deceased Routing Form and Death Certificate to verify their date of death and determine whether pension benefit payments were stopped in a timely manner.

Results

Of the 40 pensioners selected for testing, 39 pensioners did not receive a payment the month following their date of death. While one pensioner appeared to have received a pension benefit payment subsequent to the month he/she passed away, the payment was actually the reissuance of a payment that the family returned because they did not believe the estate was entitled to the payment. The Office of Pensions investigated and determined the pensioner's estate was entitled to the payment and reissued the payment the following month. We obtained the documentation to support and validate the reissuance.

Based on our testwork of 40 pensioners who passed away during the FY 2019, we determined the pension benefit payments were stopped timely upon the pensioner's death without exception.

Conclusion

In FY 2019, the total pension benefits paid to the 30,953 retirees and beneficiaries was \$713.4 million.² Based on the testwork performed in connection with this performance audit, the Office of Pensions' processes and internal controls appear to be effective in preventing pension benefit payments to deceased pensioners during FY 2019.

The AOA would like to thank the Office of Pensions for their cooperation during this audit.

² FY 2019 total pensioners and total dollar amount of benefit payments to pensioners was supplied by the Office of Pensions.

Management's Response



STATE OF DELAWARE
EXECUTIVE DEPARTMENT
OFFICE OF MANAGEMENT AND BUDGET

The Honorable Kathleen McGuiness
State Auditor of Accounts
Delaware Office of Auditor of Accounts
Townsend Building, Suite 1
401 Federal Street
Dover, DE 19901

Dear Ms. McGuiness;

In response to the Pension Performance Audit report of deceased pensioners that was performed by the Auditor of Accounts Office, I have the following management comment.

Implementing robust processes and internal controls to identify and prevent payments to deceased pensioners and beneficiaries is a critical component in assuring the successful operation and financial soundness of the Delaware Public Employees' Retirement System. The Board of Pension Trustees, Audit Committee, Pension Office staff, internal auditors, and financial statement auditors work diligently to ensure processes and internal controls are operating effectively. We are grateful for the opportunity to acknowledge our team's efforts. We will continue to develop benefit payment processes and internal controls that improve and evolve with time.

Let me know if you have any questions.

Sincerely,

OFFICE OF PENSIONS

David C. Craik
Pension Administrator



OFFICE OF PENSIONS

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