THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
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Sheryl Vacca
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

March 18, 2016

EXECUTIVE DIRECTOR SCHLIMGEN

RE: Final Report Project No. P16C013: UCRP QA Future State Advisory

Attached is a copy of the final report for: Project No. P16C013 : UCRP QA Future State Advisory. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Vacca
Vice President Duckett
Director Lorenz
Manager Cataldo
Business Controls Leader St. George
Contractor Weiss

ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

UCRP QA FUTURE STATE ADVISORY

Advisory Service Project No. P16C013
March 2016

Work Performed by:
Jeffrey Weiss, Contractor

Executive Summary

Introduction

The Retirement Administration Service Center (RASC) within UCOP supports members of the University as they transition into retirement and with life events beyond work including retirement income, University of California Retirement Plan (UCRP) disability income, survivor benefits, and UC-sponsored health and welfare benefits. The RASC is currently organized into two production areas; Customer Care (including customer calls, correspondence, and records management) and Fulfillment Operations (including disability, financial, and retirement processing) with operational support by Business Controls. The RASC defines Quality Assurance (QA) activities as processes and procedures that ensure the end result of a process meets the desired standards or requirements. QA activities are supplemental to the operational control activities performed within the production unit.

In June 2014, Internal Audit completed an advisory service project to assess the current state of QA activities within the RASC and identify opportunities to strengthen the QA program. The review noted the RASC performed reviews on 100% of transactions processed without consideration of risk, internal controls, or historical error levels and that the current level of reviews may not be scalable as the population of members increases over time. The RASC has requested Internal Audit advisory services as they seek to transition to a risk based QA function; including guidance around implementing a risk assessment approach for evaluating transactions processed within the RASC.

Objectives and Scope

Based on discussions with RASC management and information gathered from the organization, the objectives of the advisory engagement were to:

1. Develop a risk assessment approach to leverage in evaluating risk of transactions processed within the RASC.
2. Identify recommendations for implementing a risk based approach to sampling QA transactions for review.

The scope of the advisory engagement included key transactions within the RASC as of September 2015. Refer to **Appendix A** for a complete list of transactions.

Procedures Performed

To accomplish the project objectives, Internal Audit performed the following procedures:

1. Obtained an inventory of current transactions processed within the RASC.
2. Identified a set of five risk factors to assess each transaction against including:
    a. *Complexity Risk (Likelihood)* – The greater the complexity involved in a transaction, the more likely an error may occur. Consideration around complexity risk may include a) nature of which transactions are automated vs. manual (data entry vs. complex calculation), b) number of information sources required to complete transaction (one vs. several), or c) change in how a transaction is processed over time.

b. *Subjectivity Risk (Likelihood)* – The higher the degree of human judgment involved in the transaction, the more likely error could occur. Consideration around subjectivity risk may include a) level of human judgment and decision making required to complete transaction, b) whether interpretation of regulatory or compliance requirements is necessary, or c) whether tools / resources are available to personnel performing transactions to standardize judgment or decision making.

c. *Error Risk (Significance)* – The lower the tolerance for a processing error, the higher the impact / significance of an error. In addition, the higher number of instances of historical issues, the greater risk an error could occur. Consideration around error risk may include a) allowable threshold for an error (within X% or $X), b) effort (e.g. time) required to correct an error, or c) results from past reviews / audits performed by third party agencies or internally.

d. *Reputational Risk (Significance)* – The greater the reputational risk of a transaction, the higher the impact / significance of an error. Consideration around reputational risk may include a) potential for negative publicity to RASC and / or UCOP, b) materiality of error, and c) number of members impacted.

e. *Compliance Risk (Significance)* – The greater the compliance risk of a transaction, the higher the impact / significance of an error. Consideration around compliance risk may include a) potential monetary fine or penalty, b) effect on RASC status to offer benefits / services through UC Plan to members, or c) regulatory or legal ramifications of error.

3. Defined and documented 'High', 'Medium', and 'Low' criteria for each risk factor and validate with RASC leadership.
4. Determined risk weighting for each risk factor (based on a scale of 0% to 100%).
5. Facilitated a two day risk assessment workshop with representatives from the RASC to evaluate the risk of transactions based on the defined risk rating criteria.
6. Summarized the risk assessment results on a heat map and validated with RASC personnel.
7. Utilizing the risk assessment results, identified recommendations for implementing a risk based approach to sampling QA transactions for review.

Summary of Results

Based on the risk assessment workshops performed, RASC personnel evaluated over 50 transactions against five risk factors to identify the transactions deemed greatest risk to its operations. In performing the risk assessment, transactions were evaluated based on inherent risk as the effectiveness of internal controls and mitigating risk factors were not assessed by the RASC as part of this review. (Note: Inherent risk is the risk to an entity, in absence of any actions management might take to alter either the risk's significance or likelihood.) RASC personnel reviewed the preliminary risk assessment results and applied additional judgement to adjust risk ratings, where applicable, to align with expectation. The risk assessment results were summarized on a heat map by significance (impact to the member) and likelihood (opportunity for error) using a scale from 1 to 5; with 1 being low risk and 5 being high risk. Below identifies the transactions deemed medium to high risk by RASC personnel.

Likelihood and Significance of Medium to High	Significance of Medium to High	Likelihood of Medium to High
• Retirement - Manual 415 Testing • Senior Management Supplemental Benefit Payment (SMSBP) • Financial Transactions Legal Documents (Power of Attorney (POA) / Guardianships / Conservatorships)	• Survivor Benefits - Manual 415 Testing + COLA • Member Authentication	• Final Salary Calculation (Disability, Survivor Benefits) • Manual HAPC Calculation (Divorce/Separation/QDRO , Survivor Benefits, Buybacks) • Disability - New Application/Final Service Credit / Service Cap Calculation • Manual Service Credit Calculation (Divorce/Separation/QDRO , Survivor Benefits) • Medicare Enrollment

The function of quality assurance does not replace control activities performed today by production units to ensure accuracy and completeness of transactions processed; rather the QA function is a mechanism to validate, through sampling, the operating effectiveness of controls in place, identify potential design gaps within the production unit control environment, and support the improvement of processes within the operations. The risk assessment results can be utilized to inform production units about the risk of transactions and promote greater alignment going forward between the level of control and transactional risk to ensure resources are allocated effectively and efficiently toward transactions deemed greatest risk to the operations. Similarly, results of the risk assessment can also assist the RASC drive a risk based approach to quality assurance going forward. The risk assessment results can be leveraged to define, within a QA function, the:

- Approach for evaluating transactions processed; which may include a combination of 1) re-performance, 2) validation of information against supporting documentation, and 3) validation against RASC policies and procedures.
- Number of transactions for QA to evaluate; which will vary based on the population of transactions processed within a defined period.
- Frequency transactions are evaluated by QA; whereby higher risk transactions are evaluated more frequently than lower risk transactions (e.g. higher risk transactions are reviewed monthly while lower risk transactions are reviewed at least quarterly).
- Sampling approach for transactions; whether all transactions are equally considered or whether transactions are sampled by processor (e.g. in the case of a low risk transaction, QA may consider sampling a select number of transactions for each processor to confirm accuracy of processing).

When considering the number of samples to evaluate for each transaction, QA may consider the following sample size guidance; which aligns with internal audit leading practices.

Frequency of Transaction:	Sample range:
• Annually	• 1
• Quarterly	• 2
• Monthly	• 2 to 5
• Weekly	• 5 to 15
• Daily	• 20 to 40
• Multiple times/day	• 35 to 60

The sample size guidance should be applied to the population of a transaction during the defined period for which a transaction is reviewed and the frequency by which the transaction occurs during the defined period. For example, for high risk transactions reviewed monthly, QA would consider the frequency of the transaction based on a monthly population and sample a number of transactions based on the transactions frequency during the month. In addition, the RASC should define the sampling approach for each transaction and align the approach to the transactions risk rating. Results from QA's review of transactions should be tracked and periodically shared with RASC leadership to increase accountability and transparency around operational performance, identify training opportunities, and promote continuous improvement within Customer Care and Fulfillment Operations.

Deliverables
Documentation developed as a part of this project include:

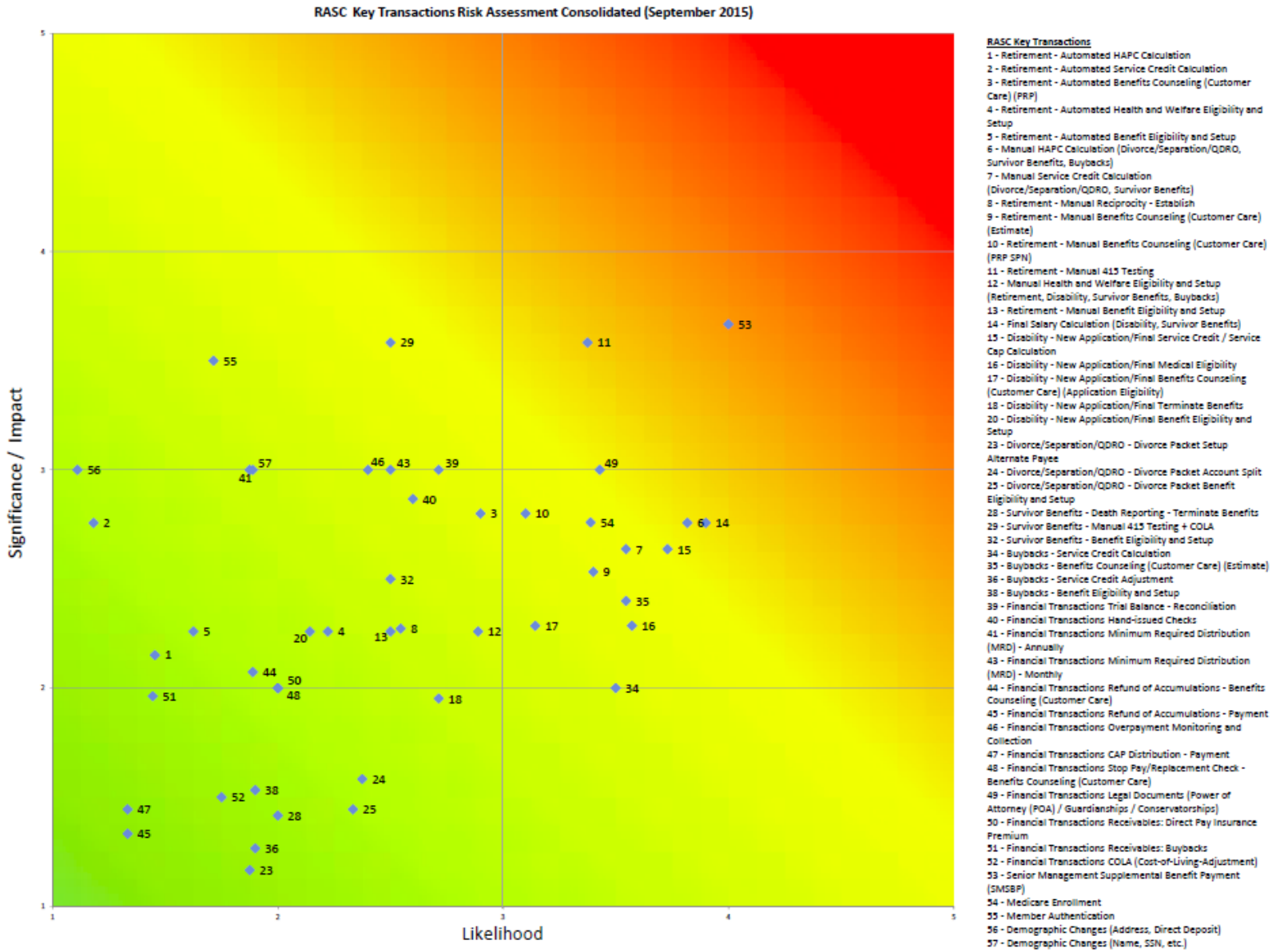
- Appendix A: Key Transactions and Final Risk Assessment Scores
- Appendix B: Heat Map of Transaction Risk
- Appendix C: Risk Rating Criteria
- Appendix D: List of Workshop Participants

No management corrective actions will be tracked by Internal Audit as a result of this review.

Appendix A
Key Transactions and Final Risk Assessment Scores

#	Transaction Name	Significance		Likelihood	
		Overall Risk Rating Summary High = 5 Medium = 3 Low = 1	Management Risk Rating Summary High = 5 Medium = 3 Low = 1	Overall Risk Rating Summary High = 5 Medium = 3 Low = 1	Management Risk Rating Summary High = 5 Medium = 3 Low = 1
		60%	60%	40%	40%
1	Retirement - Automated HAPC Calculation	2.2	2.2	1.5	1.5
2	Retirement - Automated Service Credit Calculation	2.4	2.8	1.2	1.2
3	Retirement - Automated Benefits Counseling (Customer Care) (PRP)	2.8	2.8	2.9	2.9
4	Retirement - Automated Health and Welfare Eligibility and Setup	2.3	2.3	2.2	2.2
5	Retirement - Automated Benefit Eligibility and Setup	1.9	2.3	1.6	1.6
6	Manual HAPC Calculation (Divorce/Separation/QDRO, Survivor Benefits, Buybacks)	2.8	2.8	3.8	3.8
7	Manual Service Credit Calculation (Divorce/Separation/QDRO, Survivor Benefits)	2.6	2.6	3.5	3.5
8	Retirement - Manual Reciprocity - Establish	2.3	2.3	2.5	2.5
9	Retirement - Manual Benefits Counseling (Customer Care) (Estimate)	2.5	2.5	3.4	3.4
10	Retirement - Manual Benefits Counseling (Customer Care) (PRP SPN)	2.3	2.8	3.1	3.1
11	Retirement - Manual 415 Testing	3.6	3.6	3.4	3.4
12	Manual Health and Welfare Eligibility and Setup (Retirement, Disability, Survivor Benefits, Buybacks)	2.1	2.3	2.9	2.9
13	Retirement - Manual Benefit Eligibility and Setup	1.9	2.3	2.5	2.5
14	Final Salary Calculation (Disabiliy, Survivor Benefits)	1.9	2.8	2.6	3.9
15	Disability - New Application/Final Service Credit / Service Cap Calculation	1.9	2.6	3.2	3.7
16	Disability - New Application/Final Medical Eligibility	2.1	2.3	3.6	3.6
17	Disability - New Application/Final Benefits Counseling (Customer Care) (Application Eligibility)	2.3	2.3	3.1	3.1
18	Disability - New Application/Final Terminate Benefits	2.0	2.0	2.7	2.7
19	Disability - New Application/Final Health and Welfare Eligibility and Setup	Combined w/ #12			
20	Disability - New Application/Final Benefit Eligibility and Setup	1.5	2.3	2.1	2.1
21	Divorce/Separation/QDRO - Divorce Packet HAPC Calculation	Combined w/ #6			
22	Divorce/Separation/QDRO - Divorce Packet Service Credit Calculation	Combined w/ #7			
23	Divorce/Separation/QDRO - Divorce Packet Setup Alternate Payee	1.2	1.2	1.9	1.9
24	Divorce/Separation/QDRO - Divorce Packet Account Split	1.6	1.6	2.4	2.4
25	Divorce/Separation/QDRO - Divorce Packet Benefit Eligibility and Setup	1.4	1.4	2.3	2.3
26	Survivor Benefits - HAPC Calculation	Combined w/ #6			
27	Survivor Benefits - Service Credit Calculation	Combined w/ #7			
28	Survivor Benefits - Death Reporting - Terminate Benefits	1.4	1.4	2.0	2.0
29	Survivor Benefits - Manual 415 Testing + COLA	3.2	3.6	3.4	2.5
30	Survivor Benefits - Final Salary Calculation	Combined w/ #14			
31	Survivor Benefits - Health and Welfare Eligibility and Setup	Combined w/ #12			
32	Survivor Benefits - Benefit Eligibility and Setup	1.4	2.5	2.1	2.5
33	Buybacks - HAPC Calculation	Combined w/ #6			
34	Buybacks - Service Credit Calculation	2.0	2.0	3.5	3.5
35	Buybacks - Benefits Counseling (Customer Care) (Estimate)	2.4	2.4	3.0	3.5
36	Buybacks - Service Credit Adjustment	1.3	1.3	1.9	1.9
37	Buybacks - Health and Welfare Eligibility and Setup	Combined w/ #12			
38	Buybacks - Benefit Eligibility and Setup	1.5	1.5	1.8	1.9
39	Financial Transactions Trial Balance - Reconciliation	3.0	3.0	2.7	2.7
40	Financial Transactions Hand-issued Checks	2.9	2.9	2.6	2.6
41	Financial Transactions Minimum Required Distribution (MRD) - Annually	2.8	3.0	1.9	1.9
42	Financial Transactions Lump Sum Cashout Payment	Covered via #5, #13, #40			
43	Financial Transactions Minimum Required Distribution (MRD) - Monthly	2.8	3.0	1.9	2.5
44	Financial Transactions Refund of Accumulations - Benefits Counseling (Customer Care)	2.1	2.1	1.9	1.9
45	Financial Transactions Refund of Accumulations - Payment	1.3	1.3	1.4	1.3
46	Financial Transactions Overpayment Monitoring and Collection	2.5	3.0	2.4	2.4
47	Financial Transactions CAP Distribution - Payment	1.4	1.4	1.3	1.3
48	Financial Transactions Stop Pay/Replacement Check - Benefits Counseling (Customer Care)	2.0	2.0	2.0	2.0
49	Financial Transactions Legal Documents (Power of Attorney (POA) / Guardianships / Conservatorships)	2.5	3.0	3.4	3.4
50	Financial Transactions Receivables: Direct Pay Insurance Premium	1.4	2.0	2.5	2.0
51	Financial Transactions Receivables: Buybacks	2.0	2.0	1.4	1.4
52	Financial Transactions COLA (Cost-of-Living-Adjustment)	1.5	1.5	1.8	1.8
53	Senior Management Supplemental Benefit Payment (SMSBP)	3.7	3.7	3.1	4.0
54	Medicare Enrollment	2.3	2.8	2.5	3.4
55	Member Authentication	2.0	3.5	1.7	1.7
56	Demographic Changes (Address / Direct Deposit)	1.7	3.0	1.1	1.1
57	Demographic Changes (Name, SSN, etc.)	2.2	3.0	1.9	1.9

Appendix B
Heat Map of Transaction Risk



RASC Key Transactions
1 - Retirement - Automated HAPC Calculation
2 - Retirement - Automated Service Credit Calculation
3 - Retirement - Automated Benefits Counseling (Customer Care) (PRP)
4 - Retirement - Automated Health and Welfare Eligibility and Setup
5 - Retirement - Automated Benefit Eligibility and Setup
6 - Manual HAPC Calculation (Divorce/Separation/QDRO, Survivor Benefits, Buybacks)
7 - Manual Service Credit Calculation (Divorce/Separation/QDRO, Survivor Benefits)
8 - Retirement - Manual Reciprocity - Establish
9 - Retirement - Manual Benefits Counseling (Customer Care) (Estimate)
10 - Retirement - Manual Benefits Counseling (Customer Care) (PRP SPN)
11 - Retirement - Manual 415 Testing
12 - Manual Health and Welfare Eligibility and Setup (Retirement, Disability, Survivor Benefits, Buybacks)
13 - Retirement - Manual Benefit Eligibility and Setup
14 - Final Salary Calculation (Disability, Survivor Benefits)
15 - Disability - New Application/Final Service Credit / Service Cap Calculation
16 - Disability - New Application/Final Medical Eligibility
17 - Disability - New Application/Final Benefits Counseling (Customer Care) (Application Eligibility)
18 - Disability - New Application/Final Terminate Benefits
20 - Disability - New Application/Final Benefit Eligibility and Setup
23 - Divorce/Separation/QDRO - Divorce Packet Setup Alternate Payee
24 - Divorce/Separation/QDRO - Divorce Packet Account Split
25 - Divorce/Separation/QDRO - Divorce Packet Benefit Eligibility and Setup
28 - Survivor Benefits - Death Reporting - Terminate Benefits
29 - Survivor Benefits - Manual 415 Testing + COLA
32 - Survivor Benefits - Benefit Eligibility and Setup
34 - Buybacks - Service Credit Calculation
35 - Buybacks - Benefits Counseling (Customer Care) (Estimate)
36 - Buybacks - Service Credit Adjustment
38 - Buybacks - Benefit Eligibility and Setup
39 - Financial Transactions Trial Balance - Reconciliation
40 - Financial Transactions Hand-issued Checks
41 - Financial Transactions Minimum Required Distribution (MRD) - Annually
43 - Financial Transactions Minimum Required Distribution (MRD) - Monthly
44 - Financial Transactions Refund of Accumulations - Benefits Counseling (Customer Care)
45 - Financial Transactions Refund of Accumulations - Payment
46 - Financial Transactions Overpayment Monitoring and Collection
47 - Financial Transactions CAP Distribution - Payment
48 - Financial Transactions Stop Pay/Replacement Check - Benefits Counseling (Customer Care)
49 - Financial Transactions Legal Documents (Power of Attorney (POA) / Guardianships / Conservatorships)
50 - Financial Transactions Receivables: Direct Pay Insurance Premium
51 - Financial Transactions Receivables: Buybacks
52 - Financial Transactions COLA (Cost-of-Living-Adjustment)
53 - Senior Management Supplemental Benefit Payment (SMSBP)
54 - Medicare Enrollment
55 - Member Authentication
56 - Demographic Changes (Address, Direct Deposit)
57 - Demographic Changes (Name, SSN, etc.)

Appendix C
Risk Rating Criteria

Risk Factors	Complexity Risk	Subjectivity Risk	Error Risk	Reputational Risk	Compliance Risk
Weight	20%	20%	20%	20%	20%
High	▪ Transaction is manual and complex (e.g. calculation with many inputs / formulas). ▪ Number of information sources is greater than three. ▪ Process for completing transaction has recently changed.	▪ Transaction is highly subjective and requires a high level of human judgment. ▪ Transaction utilizes estimation or assumptions that are unique to each member.	▪ Transaction has had multiple prior incidents concerning ineffective / incomplete mitigation. ▪ Allowable threshold for a transactional error as defined by the RASC is zero. ▪ Effort (time) to correct error is high.	▪ High potential for negative publicity to RASC and / or UCOP. ▪ Materiality of error could be significant and / or error could impact a significant number of members.	▪ Non-compliance with UC Plan may result in a fine or will affect RASC's status to provide benefits to members.
Medium	▪ Transaction is manual and has medium complexity (e.g. calculation with low number of inputs). ▪ Number of information sources is one to three. ▪ Process for completing transaction has recently changed.	▪ Transaction has some components that are subjective in nature and / or require human judgment. ▪ Transaction utilizes estimation or assumptions that are applied across all members.	▪ Transaction has had some prior incidents concerning ineffective / incomplete mitigation.	▪ Medium potential for negative publicity to RASC and / or UCOP.	▪ Non-compliance with UC Plan may result in a fine or could affect RASC's status to provide benefits to members.
Low	▪ Transaction is either automated (e.g. calculation performed by system) and / or not complex (e.g. address change, data entry) ▪ Number of information sources is one. ▪ Process for completing transaction has not changed.	▪ Transaction does not have subjectivity and / or use of human judgment is limited. ▪ Transaction does not utilize estimation or use of assumptions.	▪ Transaction has not been subject to prior occurrences of ineffective / incomplete mitigation. ▪ Allowable threshold for a transactional error. ▪ Effort (time) to correct an error is low.	▪ Low potential for negative publicity to RASC and / or UCOP. ▪ Materiality of error is low and error could impact a limited number of members.	▪ Non-compliance with UC Plan would not result in a fine or affect RASC's status to provide benefits to members.

Appendix D
List of Risk Assessment Workshop Participants

Unit	Name
Customer Care	Jenny Zapien Michael Waldman Scott Sylva Stephanie Rosh
Fulfillment Operations	Darda Swanson Greg Ricks Judy Ohmott Marie Johnson Richard Townsend
Business Controls	Anne St George Jonathan Wilson Leland Espinosa Margaret Lucas Myrna Davis Steven Ong
Risk Management & Audit Services	Jeffrey Weiss, Contractor