



Cobb County...Expect the Best!

INTERNAL AUDIT DIVISION

Report Number: 2013-001

***FINAL REPORT - Review of Controls Over the
Processing of Benefit Payments and Invoices in the
Human Resources Department***

April 26, 2013

***Latona Thomas, CPA, Manager
Steven Harper, Staff Auditor I
Barry Huff, Staff Auditor I***

Table of Contents

Transmittal Letter	Page i
Background	Page 1
Results of Review	Page 3
Procedures for Monitoring and Accounting for Incoming Payments Need Improvement	
Direct Payees	Page 3
<u>Recommendation 1</u>	Page 5
<u>Recommendation 2</u>	Page 6
<u>Recommendation 3</u>	Page 7
<u>Recommendation 4</u>	Page 8
<u>Recommendation 5</u>	Page 9
AFLAC Payments	Page 9
<u>Recommendations 6 & 7</u>	Page 10
Pension Administrator Payments	Page 11
<u>Recommendation 8</u>	Page 11
Workers' Compensation	Page 12
<u>Recommendation 9</u>	Page 13
Procedures for Monitoring and Accounting for Outgoing Payments Needs Improvement	
Outgoing Premium Payments and Administrative Fees Need to Be Validated	
<u>Recommendation 10</u>	Page 13
<u>Recommendation 10</u>	Page 21
Contract Management Practices Need to Be Improved	
<u>Recommendation 11</u>	Page 22
Basic Internal Control Practices Need to Be Improved	
<u>Recommendation 12</u>	Page 23
<u>Recommendation 13</u>	Page 24

Appendices

Appendix I – Detailed Objectives, Scope, and Methodology.....	Page 25
Appendix II – Abbreviations and Glossary	Page 27
Appendix III – Major Contributors to the Report	Page 28
Appendix IV – Final Report Distribution List	Page 29
Appendix V – Outcome Measures.....	Page 30
Appendix VI – Auditee Response.....	Page 33



COBB COUNTY INTERNAL AUDIT

Latona Thomas, CPA

100 Cherokee Street, Suite 250
Marietta, Georgia 30090
phone: (770) 528-2559 • fax: (770) 528-2642
TDD/TTY: (678) 581-5429
latona.thomas@cobbcounty.org

Division Manager

April 26, 2013

MEMORANDUM

TO: MEMORANDUM TO COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** – Review of the Controls Over the Processing of Benefit Payments and Invoices in the Human Resources Department

Attached for your review and comments is the subject draft audit report. The objective of our audit was to determine if controls are adequate to ensure that employee benefit payments received in Human Resources (HR) are properly accounted for, efficiently processed and deposited; and payments initiated for premiums and administrative program fees are accurate and efficiently processed.

Impact on the Governance of the County

The findings in the report will strengthen the controls over the accountability of over \$60 million of funds processed through or approved by the Human Resources Department annually. Taxpayers can be assured that manual benefit payments received from employees will be accurately accounted for and deposited in a timely manner and expenditures for employee benefit premiums and administrative program fees are properly verified for accuracy prior to payment.

Executive Summary

At the request of the Human Resources Director, we reviewed the controls over the processing of health related benefit payments. Our review showed that although incoming payments were accounted for, the process used to identify and monitor these payments is labor intensive and time consuming. The current process also does not provide adequate assurance that all persons requiring a direct payment are identified. Using an automated system for processing the payments would reduce the time needed to monitor the timely and accurate submission of payments and eliminate manual tracking and reporting. In addition, we determined that the following procedures for monitoring and accounting for incoming payments need improvement.

- Better procedures are needed to identify employees who are required to make direct payments.
- Monitoring of direct payments needs to be automated.
- Policies for terminating coverage due to non-payment need to be developed.

- The agreement with AFLAC to pay the County an administrative fee for processing employee premium payments needs to be documented.
- Refund of AFLAC premiums should be sent directly to the employee, eliminating the need for the County to receive and resend the check to the employee.
- Healthcare premium payments from the pension administrators need to be verified for completeness and accuracy and tracked as an accounts receivable using the County's financial system.
- Procedures need to be changed to reduce the number of checks received from the workers' compensation administrator and to automate the tracking of payments due from employees who need to repay excessive workers' compensation payments.

We determined that procedures for the monitoring and accounting of outgoing payments needs improvement because invoices for healthcare benefit premiums and administrative fees were not always verified prior to payment that resulted in several invoices being under or overpaid. For the month of July 2012, four monthly invoices were either over or underpaid resulting in an estimated net underpayment of \$1,338. Our test of annual invoice payments showed two invoices either underpaid or overpaid resulting in a net overpayment of \$6,972. See tables below.

July 2012 Monthly Invoices

Vendor	Over/(Under) Payment
BCBS Administrative Fee	\$ (776.00)
Kaiser Permanente	\$ (627.00)
Cigna Dental	\$ 586.00
Symetra	\$ (521.00) ¹
Underpayment, net	<u>\$(1,338.00)</u>

Source: July 2012 invoices, Human Resources Department.

2012 Annual Invoices

Vendor	Over/(Under) Payment
Annual State Board Workers' Compensation Fee	\$(3,000)
Subsequent Injury Trust Fund	\$ 9,972
Overpayment, net	<u>\$ 6,972</u>

Source: Annual Payment for calendar year 2012, Human Resources Department.

¹ Assumption based on the family premium rate.

Our analysis also identified approximately \$22,000 in overpayments to CIGNA that were mainly a result of 220 terminated employees erroneously listed as eligible enrollees in our dental program. CIGNA acknowledged the extended overpayment of the ASO fee related to these enrollees and, to date, has refunded the County \$15,273². We also identified potentially \$6,538 in dental claims paid for these enrollees after their termination date.

CIGNA Dental	Over/(Under) Payment
Overpaid ASO Fees, refunded	\$15,273
Erroneous Dental Claims Paid	\$ 6,538
Overpayment	<u>\$22,261</u>

Source: HR Financial Records.

Reviewing, validating and authorizing invoices for payment is one of the best practices of contract management. Our review showed a lack of adherence to best contract management practices, which attributed to the underpayment and overpayment of these premium and administrative fee invoices. Other aspects of contract management were not being practiced. Contract provisions were not familiar to the contract coordinators, vendor performances were not monitored, and contract documentation was incomplete or not readily available.

Finally, we also determined that basic internal control practices of ‘segregation of duties’ and ‘management review at the activity level’ need to be reemphasized. We identified instances of employee handling more than one key aspect of a transaction, which increases the risk of error or fraud. Also, management review, approval and documentation of critical processes need to be increased at the functional or activity level to ensure management objectives and goals are met.

We did not conduct a review of claims. A separate audit of claims’ eligibility, adjudication and processing is in its initial phase with completion scheduled for the first quarter of calendar year 2013 and results presented thereafter.

Recommendations

We made several recommendations to address the issues identified above, including:

- Develop additional reports to help in the identification of employees who are required to make direct payments.
- Develop a written policy for the termination of unpaid health coverage.
- Contact AFLAC to obtain written confirmation of administrative fee and coordinate redirection of refund checks to employees.
- Set up accounts receivable in the Advantage Financial System to monitor the payments from direct payees and pension administrators.
- Establish best practices for contract administration, including procedures for validating invoices prior to payment.
- Revise current procedures and implement changes to ensure proper segregation of duties for the processing of incoming and outgoing payments.
- Revise current procedures to ensure management review and approval of any changes made to the County or vendor system of records.

² Includes the \$586 identified in our review on July 2012 invoices.

Response

The Human Resources Department Manager provided a response to our draft report and concurred with 10 of our 13 recommendations. He proposed acceptable alternative solutions to two recommendations and decided to partially implement one of our recommendations. The Director did not agree with requesting AFLAC provide written details of the administrative fee, but has asked the administrative service provider to supply the documentation. Internal Audit does not take exception to this business decision. The complete response to the draft report is included as Appendix VI. We will perform a follow-up in six months on the implementation of corrective actions. Please contact me at (770) 528-2559 if you have questions or Barry Huff, Auditor-in-Charge, at (770) 528-2558.

Background

The Human Resources Department receives and initiates payments related to employee benefits. Several employees are involved in the monitoring and processing of these payments, which total several million dollars annually. Adequate controls need to be in place to ensure these payments are accurate and efficiently processed.

INCOMING PAYMENTS

The Human Resources (HR) Department processes payments received from individuals for payment of their benefits. The department also receives payments from the workers' compensation administrator, pension administrators, and supplemental benefit providers. Occasionally, they receive repayment of a deceased retiree check or retirement buy-back checks.³ Each of these payments are received by different employees in the HR Department but are primarily processed to the Finance Department for deposit by one employee.

Direct Payments

HR receives direct payments from approximately 101 individuals in order to maintain their health, dental or other supplemental benefit insurance coverage. These payments average approximately \$37,000 monthly.

Payments from Pension Administrators

HR also receives payments for health coverage from SunTrust Bank⁴ and Prudential Insurance⁵ for the payment primarily of health benefit coverage⁶ for retirees. One check from each vendor is received and is accompanied by a summary report and detailed listing (roster) of all affected retirees. These payments average approximately \$205,000 monthly.

Payments from Workers' Compensation (WC) Insurance Carrier, AmTrust North America Inc. of Alpharetta, Georgia

HR receives payments from AmTrust for refunds of overpayments and reimbursements of workers' compensation benefits from various sources. These WC payments can be substantial (in the hundreds of thousands of dollars) and are received and processed by HR staff. For FY2012 (as of July 31, 2012), the total refunds and reimbursements totaled \$221,453.

AFLAC Payments

Each month, AFLAC checks are received by HR to pay an administrative fee to offset the cost of processing AFLAC premium deductions for employees. For FY2012, the average monthly administrative fee was approximately \$8,000 monthly. Other smaller checks are received for employee overpayment of premiums. An adjustment is made to the employee's payroll records to account for the pretax consequence of the refund and a new check is issued to the employee.

³ Money received from rehired employees to pay back retirement money withdrawn when they left employment with the County.

⁴ Current vendor that processes retirement benefits.

⁵ Former retirement benefit vendor that processed payments for the older retirees. All current retirees are processed by SunTrust.

⁶ Health benefits for retirees include health insurance and temporary COBRA dental coverage.

Other Incoming Payments

Occasionally, HR receives a check from the estate or family of a retiree to repay retirement checks sent to the retiree after their death. HR may also receive a check on occasion for the repayment of retirement deductions by a rehired employee. The 'buy-back'⁷ payment is made in order for the employee to get credit for their previous employment service for retirement purposes. The repayment is then sent to the pension administrator. HR staff estimates they receive approximately five of these checks each year. The administrative efforts to recover any associated healthcare premiums in these instances are not deemed cost-beneficial.

OUTGOING PAYMENTS

The County's self-insured program has been in existence since October 1, 1985, and includes health, prescription drug and dental benefit plans. Coverage is provided for all full-time workers, eligible retirees, COBRA⁸ participants and their eligible dependents. The County is also self-insured up to \$650,000 per occurrence for workers' compensation. Additional per occurrence amounts are covered by an excess workers' compensation policy.

The County has contracted with several vendors under third party administrator (TPA) service agreements to administer our benefit programs and pay the related claims on behalf of the County. Some vendors charge an administrative fee to the County for the services it provides and facilitates the payment for all the claims it processes. Kaiser Permanente, the County's only fully insured program, does not require an administrative fee.

HR initiates payments (approximately \$60.2 million a year) to pay claims, premiums and administrative fees for health, dental, supplemental benefits, and workers' compensation related expenses. The validation of claims will be performed in a subsequent audit and results issued by June 2013.

⁷ Any employee who separates from the County prior to meeting the vesting requirement receives a payout of their employee contributions plus interest. If re-employed by the County within an established timeframe, the employee is afforded an opportunity to make a 'buy-back' payment in order to receive credited service for previous time employed.

⁸ The Consolidated Omnibus Budget Reconciliation Act (COBRA) gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances such as voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events. Qualified individuals may be required to pay the entire premium for coverage up to 102 percent of the cost to the plan.

Results of Review

Our overall objective was to determine if controls were adequate to ensure that employee benefit payments received in Human Resources (HR) were properly accounted for, efficiently processed and deposited; and payments initiated for premiums and administrative program fees were accurate and efficiently processed. Our audit work was limited to health-related benefit payments only.

We determined that generally incoming payments from direct payees, benefit providers and administrators were accounted for; however, the methodology for processing and depositing the payment was labor intensive, subject to error, and inefficient. Outgoing payments were not always subject to verification before payment and validation processes were often flawed because source data used to calculate premiums or fees were incorrect.

Discussion on our results of review of the incoming and outgoing payments is presented below.

Procedures for monitoring and accounting for incoming payments need improvement

Direct Payees

The HR Department receives direct payments⁹ from active and inactive employees for the payment of health, dental, life and other supplemental benefits under the following circumstances:

- **Employees (County or State¹⁰) in non-pay or inadequate pay status** (primarily Leave of Absence (LOA) status) must make direct payments to continue their benefits. These payments would ordinarily be deducted from their bi-weekly pay.
- **Terminated employees (County or State) and their dependents dropped from coverage** must make payments to take advantage of health coverage under the COBRA¹¹ laws. Also includes eligible dependents of active employees whose coverage was dropped for various reasons.
- **State Employees** who do not receive supplemental salaries from the County that participate in our benefit program. These persons are required to make benefit payments monthly.
- **State Retirees** – former County employees who were covered under the State of Georgia or Georgia Teacher Retirement System that are eligible to participate in our retiree health and/or dental plans.
- **Retirees with inadequate retirement pay** to cover their benefit premium.
- **Family member(s) granted 90-day temporary coverage** due to death of employee or retiree.

⁹ Payments from individuals, not withheld from wages.

¹⁰ Some State employees work as County employees and receive a supplemental pay benefit from the County. These employees are only eligible for dental, life, and other supplemental benefits (not health). Only Library employees with the State Teachers Retirement are eligible for County benefits similar to that of active employees.

¹¹ Consolidated Omnibus Budget Reconciliation Act of 1985.

Identifying All Direct Payees

Our interviews and observations revealed that most direct payees are identified through the normal processing of personnel actions; however, the process is labor intensive, inefficient, and can potentially lead to inaccuracies.

Employees in non-pay or inadequate pay status

Employees (County and State) in a non-pay or inadequate pay status are identified when HR staff generates a WEBI-pending deduction report from the County's most recent bi-weekly payroll run. For each person identified on this report, HR researches the employee's status and indicates the necessary action to be taken to resolve the pending deduction. For employees requiring a direct payment, a statement of account (SOA) is then set up using EXCEL spreadsheets and monitored bi-weekly or monthly as needed to ensure payments were made in a timely manner. This is currently a manual process, but we believe recommended changes will improve the inefficiencies identified and provide additional assurances that all the respective persons have been identified. See further discussion under the section 'Resolving Pending Deductions.'

Terminated employees (County or State) and State retirees dropped from coverage

Employees, retirees and dependents eligible for benefits under COBRA laws are identified through personnel actions. State retirees and dependents eligible for County benefits are identified during the retirement process. Each of these processes provides no assurance that all eligible persons are identified.

This weakness can be addressed by developing an automated report to identify changes in the weekly benefit eligibility submissions¹² from Information Services to healthcare providers. These changes can be researched to identify participants dropped from coverage.

In addition, a complete list of employees who recently separated from service and are eligible under COBRA laws can be identified by generating a periodic report of employees with employment status codes of Inactive¹³, Termination¹⁴, or Death¹⁵.

State Employees with no supplemental salary and County retirees with inadequate pay

Because there is no specific identification code for state employees with no supplemental salaries, these persons will have to continue to be identified during new hire and open enrollment procedures. Likewise, retirees with inadequate pay to cover their premiums are identified during the retiree and open enrollment process. We found no other efficient way to identify these persons; however, changes in these individual's benefit plan selections can also be identified using the automated comparison of weekly benefit eligibility submissions. We believe these areas to be of minimal impact.

¹² Weekly benefit eligibility submissions identify all individuals enrolled in County health and dental benefits. Changes between the weekly submissions will include all persons with added or dropped coverage within the previous week.

¹³ Terminated employee who is vested in the retirement plan.

¹⁴ Terminated employee who is not vested in the retirement plan.

¹⁵ Deceased employee.

Family member(s) granted 90-day temporary coverage

Dependents granted temporary coverage due to the death of an employee or retiree are also identified through personnel actions after HR staff are made aware of the death. Identification of eligible family members can be facilitated by the use of the list of employees who recently separated from service as mentioned above.

Unidentified direct payees

We did not perform any independent tests to identify any additional persons that should have been designated as a direct payee of health benefits; however, as of July 2012, HR identified 101 individuals who were making approximately \$29,000 a month in direct payments. We are unable to provide any assurance on the completeness of this number beyond conclusions reached during our review of the monitoring process.

In addition, we did note that documentation to support the required notification of eligible coverage and subsequent plan selection was not consistently maintained.

Recommendation

The Human Resources and Information Services Directors should:

Recommendation 1: Develop a) an automated report to identify changes in the weekly benefit eligibility submissions from Information Services to healthcare providers; and b) a periodic report of all new individuals with an employment code of inactive, termination or death. Human Resources staff should research these changes, identify the persons requiring direct payments, and ensure the requirements to maintain coverage is properly communicated and documented. A Human Resources Manager should be designated to periodically review and initial the report as evidence that the process was properly completed. This recommendation will also provide assurance regarding the completeness of ongoing eligibility.

Auditee Response: **Concur** – Using the weekly eligibility files created by IS, HR will compare the current eligibility file with the previous weekly file using the Vlookup feature within Excel. Any identified direct payees will be forwarded to the appropriate HR Coordinator for appropriate actions. Human Resources will also recommend a reorganization of staffing to the County Manager to accommodate a separation of duties for benefit eligibility and financial payments. This new reorganization will provide for two HR Coordinator positions to administer day-to-day activities for eligibility and financial payments. Each coordinator will report to a separate HR Manager responsible for review and approval of work performed. Complete no later than July 1, 2013. HR Staff Person Responsible – Employee Services Manager (Michelle Page).

Monitoring of Direct Payee Accounts

The process used to monitor and account for the direct payee payments is labor intensive and inefficient. As indicated previously, a SOA is set up for each employee requiring a direct payment to track the balances owed. These SOAs are grouped into four workbooks based on the category of direct payment (i.e. LTD, COBRA, LOA, or Temporary Coverage). The HR Specialist reviews the SOAs each pay period and sends a delinquent letter for all outstanding payments not received. Benefits are normally cancelled after two pay periods of non-payment; however, we found that this process is not consistently followed. We identified instances where no payments were received for two or three months before the benefits cancelled.

In addition to the SOAs, a control spreadsheet is set up which lists, by type, all the current direct payees. The list is seldom accurate because continuous updating is required, does not serve any purpose and should be discontinued. We also found that the SOAs and other outgoing payment files are maintained on a shared HR network drive and could be modified without knowledge of the staff responsible for monitoring. Unrestricted access to these files increases the risk of errors or potential for fraud.

We discussed the tracking of direct payments with Finance staff and determined that a receivable can be set up for each of the direct payees on the Advantage Financial System. The system would record and post the payments to the correct accounting ledger and also monitor the accounts for overdue payments. An aging report can be designed to provide a listing of overdue accounts. Additional research is being conducted to determine if the system can generate notices of delinquency to the payee. As of the date of this report, discussions to automate this process are ongoing.

Based on our review of July 2012 SOAs, we noted a number of minor errors in the posting of direct payee charges and the application of payments. Most can be attributed to data entry or formula error. We did identify seven payments that were incorrectly applied which caused the underpayment of a premium and one person that was charged the incorrect premium amount. The remaining errors have the potential to result in incorrect premiums being paid, but adequate supervisory review or reconciliation controls can strengthen this process for greater accuracy.

Recommendation

The Human Resources Director and Finance Division Manager should:

Recommendation 2: Set up account receivables utilizing the Advantage Financial System to monitor the direct payments. These accounts should then be monitored in accordance with each pay period and the results reviewed and approved by a Human Resources Manager.

Auditee Response: **Concur with Alternate Solution** - Human Resources will continue to pursue an accounts receivable solution with the Finance Department and Information Services. Recommend direct payments be received by the County via EFT of individual checking accounts rather than by manual payment requiring cash handling and deposits. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

Policy for Terminating Coverage

Although HR has a stated practice of terminating coverage after 30 days of non-payment, our review showed that when payments were untimely submitted, termination of coverage was inconsistently applied. We identified delinquencies in direct payment accounts that should have resulted in termination of coverage based on the stated practice, including two significant delinquencies overdue by as much as four months without cancellation. One of the two was cancelled, and another was cancelled but reinstated when the former employee made a four-month overdue payment. The monitoring employee stated that she normally terminates persons on LOA after two pay periods and all others after two months.

HR does not have a written policy for terminating coverage for nonpayment, which causes inconsistencies when coverage is terminated. In addition, exceptions to their stated practice are made on a case-by-case basis. Adhering to an established policy will ensure all persons are treated equally and help ensure the County is not providing coverage for persons who are not paying their part of the health benefit premiums. It also minimizes the potential of the County paying claims for benefits that should have been cancelled. In addition, benefit coverage may be retroactively terminated; however, we were unable to determine if the County reimburses the respective fund for its portion of the health benefit cost already transferred to the claims fund.

Recommendation

The Human Resources Director should:

Recommendation 3: Develop a written policy for the termination of health coverage for nonpayment of premium. Adherence to the policy should be evaluated periodically by a Human Resources Manager and documented accordingly.

Auditee Response: **Concur** - Human Resources will develop and implement a standard operating procedure for the termination of health coverage for nonpayment of premium that is in line with the SPDs. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

Resolving Pending Deductions

Pending deductions are created when an employee is in a non-pay status or the employee's pay is insufficient to pay their health benefits. A WEBI-pending deduction report is used primarily to identify these individuals so they can be contacted and instructed to make direct payments to keep their benefits in force. This report is also used by other HR staff to resolve other issues. HR does not have a written policy on how to handle these deductions.

Currently, when payments are received from these direct payees, HR staff will manually post the payment to a SOA for that employee or retiree. The payment is also posted to a deposit slip and sent to the Finance Department for processing.

The deposit slip with the payments listed is given to a separate HR staff member who will delete the pending deductions from the Advantage HR Payroll system.¹⁶ The problem with this process is that no record of deletion is maintained and no documentation is kept to justify the deletion. An HR employee could misappropriate the direct payment made by the direct payee and cover it up by deleting the pending deduction. This type of misappropriation would not be identified unless a direct payee reconciliation of SOAs to deposits is performed.

In other instances, pending deductions that are unpaid for an extended period of time are also deleted from the system. No determination is made on whether these pending deductions are valid assessments against the employee. Also, no consideration is given to the recovery of the County's portion of the benefit costs.

¹⁶ The AMS Advantage Suite of Products is a web-based, ERP (business management software with system of integrated applications) solution built to effectively manage state and local government with a full suite of built-for-government tools including financial management, payroll, budgeting, human resources management, procurement and grants management.

HR staff indicated they delete the pending deductions to ensure that if the employee returns to a pay status, a duplicate payment will not be deducted from the employee's pay. The current SYSTEM-pending deduction report used by HR staff accumulates all pending deductions in a suspended status on the system that will automatically be offset by any future form of payment to the employee via the payroll system (i.e. salary, holiday/vacation pay, leave donations). Retiree pending deductions for spousal and tobacco surcharges are included on the SYSTEM-pending deduction report in error.

Internal Control standards require that all transactions and other significant events need to be clearly documented, and such documentation should be readily available for examination. The documentation requirements should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.

We held a discussion with HR and Finance staff to determine if the payroll system would allow direct payments for pending deductions to post to the system and offset the pending deductions automatically. This would provide the trail for the receipt of the payments on the system and eliminate the need to delete the pending deductions. The Finance Department is researching user groups and contacting the vendor to determine if there is a way to post these payments to the system. As of the date of this report, the issue remains outstanding.

Recommendation

The Human Resources Director should:

Recommendation 4: Establish a written policy for how to handle pending deductions, to include what documentation is required and what approval is needed if a deduction is deleted. The policy should also state what actions to take, if any, to collect unpaid deductions and/or the recovery of the respective County's portion already transferred to the claims fund on this individual's behalf. In addition, follow up with the Finance Department and vendor to assess other functional capabilities of the pending deduction report.

Auditee Response: **Concur** - Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

Pending Deduction Reports

As reported previously, pending deductions are automatically generated each time the bi-weekly payroll is processed and are held in suspended status in the HR Advantage System until a subsequent payroll run includes sufficient employee pay to offset the deduction amount. These deductions include unpaid healthcare benefits and other deductions from employees in non-pay status or their pay is not enough to cover health benefits or other deductions (i.e. parking, taxes, spousal surcharges, and tobacco surcharges). Retiree spousal and tobacco surcharges are also held in this suspended status as pending deductions in error. A SYSTEM-generated report (DEDS0014 report) can be generated to pull a complete list of all pending deductions for all pay periods. This report is not utilized by HR because of the programming flaw associated with retiree surcharges. HR has contacted the vendor to address the problem, but has not received a solution to date.

Instead, HR staff generates a WEBI-report of all pending deductions from the most recent pay period, which is used in conjunction with the deposit listing to determine whether to delete the pending deductions held in suspense in the system. This report is also routed to other HR staff to address unpaid parking or other issues; however, there is no one person responsible for ensuring that all actions required for persons on the report have been completely resolved. A hybrid of the WEBI-report is used by a different staff member to determine if the employees on approved LOA need to be contacted and informed to make direct payments. The WEBI-reports are less comprehensive than the SYSTEM-generated report because it reflects only the most recent pending deductions outstanding. Additional manual research on specific employee accounts is needed to determine the pending deductions that may be outstanding.

Since the SYSTEM-generated report is the most comprehensive, we judgmentally decided to use it for our testing purposes. We filtered the extraneous information about the retirees by eliminating records with surcharges. There may have been some records for current employees with surcharges that were filtered out, but the output was adequate for our testing purposes.

To determine the difference in the reports and if one report could serve the needs of everyone in HR, we ran the three reports concurrently and compared the results. According to our comparison and analysis of the differences, we concluded that a revised SYSTEM-generated pending deduction report should be created and tested for accuracy to ensure it lists all current pending deductions. This report should be used by all HR staff for the purpose of identifying all pending deductions that need HR actions; whether requiring direct payments, deletion or collection of the deductions, or other actions. The SYSTEM-generated report can be annotated by all and supporting documentation can be attached to justify deletion of any pending deductions from the report.

Recommendation

The Human Resources Director should:

Recommendation 5: Consult with the Finance Department and vendor and resolve the problem with the SYSTEM-generated pending deduction report and utilize it to identify employees whose pay is insufficient to pay all deductions. The report can be utilized by various HR employees for their purposes such as identifying employees who need to make direct payment of health benefits, deletion of resolved pending deductions or employees whose flexible spending account (FSA) should be deactivated due to nonpayment of the FSA deduction.

Auditee Response: Concur - HR will pursue this as a priority with the Information Services Department, then CGI if necessary. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

AFLAC Payments

Each month, AFLAC checks are received by HR to pay an administrative fee to offset the cost of processing AFLAC premium payments for employees. The administrative fee received is based on 5% of the total premium paid by employees and averages approximately \$8,000 monthly. We determined that HR has a letter from AFLAC confirming the fee will continue to be paid, but no current formal agreement stipulating the terms, period, or basis for the fee.

Without such an agreement, AFLAC could modify or discontinue the payment of the fee without any recourse. The money received from AFLAC is currently budgeted to pay for wellness initiatives, and those initiatives could be jeopardized if the payment is not continued for any reason.

We also noted that the AFLAC checks are made payable to both the County and a HR employee. Having checks made payable to County employees increases the risk of theft or fraud.

Other smaller checks are received from AFLAC for employee overpayment of premiums. The County deposits these checks; an adjustment is made to the employee's payroll records to account for the pretax consequence of the refund and then a County check is cut to the employee for the same amount. These checks are also made payable to the County and HR employees.

We determined in our discussion with Finance, the checks received from AFLAC could be sent directly to the employee which saves the County the cost and effort of depositing the AFLAC check and sending a County check to the employee. This will also eliminate the risk involved with having checks made payable to County staff. Sending overpayment information about the check to Finance would suffice to make the adjustment to the employee's payroll records.

Recommendations

The Human Resources Director should:

Recommendation 6: Request AFLAC to provide specific written details of the 5% administrative fee stipulating the terms, period, and basis for the fee. All future AFLAC checks should be made payable to the County only.

Auditee Response: Partially Disagree - Human Resources does not concur with requesting AFLAC provide written details of the administrative fee reimbursement provided to the County since this is not a contractual obligation, but rather a value added benefit of our relationship with AFLAC. However, the HR Director has made such a request to our administrative services provider, Houze & Associates and will continue to follow up.

Human Resources does concur with requesting AFLAC issue all checks payable to the County only and will notify current plan administrator. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

Recommendation 7: Contact AFLAC and arrange for employee refund checks to be directly mailed to the employee and Finance notified of the refund so the necessary adjustments to payroll records can be made.

Auditee Response: Concur - Human Resources does concur with requesting AFLAC issue and mail all employee refund checks directly to the employee and provide Finance/Payroll notification of the refund so the necessary adjustments to payroll records can be made. Human Resources will notify the current plan administrator. Complete no later than July 1, 2013. HR Staff responsible – (Michelle Page).

Pension Administrator Payments

HR also receives payments from SunTrust Bank¹⁷ and Prudential Insurance¹⁸ for the payment of health benefit premiums¹⁹ withheld from retirees. SunTrust payments were previously received via check, but during the audit, they began sending their payment via ACH. Effective January 2013, retiree's benefits are no longer processed by Prudential. All retirees previously serviced by Prudential were transferred to SunTrust or the County's ExtendHealth program.²⁰

A summary report and detailed listing (roster) of all affected retirees is accompanied with each vendor payment or received shortly thereafter. As of our fieldwork date, these payments averaged approximately \$205,000 monthly.

Currently, the payment amount is agreed to the detailed listing in total, but no verification is performed to determine the completeness or accuracy of the payments due from the vendors. No written instructions requiring the monthly verification of the payments had been provided. We validated the July 2012 payments against County records and noted 23 discrepancies resulting in a net underpayment of \$1,704. We were unable to validate another 12 due to incomplete information.

In order to ensure we receive a premium benefit payment for each retiree, HR should compare the electronic version of the detailed listing to an available retiree listing in HR Advantage. This will ensure that retirees are paying their share of the health benefit costs the County is paying each month. Although the new ExtendHealth plan will reduce the number of retirees who SunTrust will need to continue to pay their health coverage premiums, the verification of the remaining retirees is still needed.

In our discussion with Finance, we determined that it is a possibility they could setup a receivable within Advantage Financial for each retiree. The electronic detailed listing could be used to upload data to the system to confirm whether the monthly payment was received from the vendor. Any outstanding receivables for the month could be researched and resolved.

Recommendation

The Human Resources Director and Finance Department should:

Recommendation 8: Set up receivables utilizing the Advantage Financial System to monitor the payments from the pension administrator. In the interim, the monthly verifications should be performed using existing Microsoft Office desktop products.

Auditee Response: **Concur** - Human Resources will continue to pursue an accounts receivable solution with the Finance Department and Information Services. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

¹⁷ Current vendor that processes retirement benefits.

¹⁸ Former retirement benefit vendor that processes payments for the older retirees. All current retirees are processed by SunTrust.

¹⁹ Health benefits for retirees include health insurance (including tobacco and spousal surcharges) and temporary COBRA dental coverage.

²⁰ A new program for Medicare-eligible retirees that provides access to a variety of individual healthcare plans.

Workers' Compensation

AmTrust (AT) administers the Workers' Compensation program for the County. Under the agreement, HR receives refunds and reimbursements from AmTrust in connection with workers' compensation benefits including:

- Refunds from doctor's offices for various reasons.
- Reimbursement of payments for WC from the Subsequent Injury Trust Fund.²¹
- Subrogation²² – reimbursement of WC payments made by the County that were payable by another insurance carrier.
- Reimbursement of WC payments in excess of \$650,000. The County has an insurance policy against excessive WC claims and can submit a claim to the carrier for reimbursement of WC payments in excess of our insured amount.

For FY2012 (as of July 31, 2012), the total refunds and reimbursements received was \$221,453. The checks are received by HR staff and sent to Finance for deposit and posting to our Trust Fund Workers' Compensation account.

As part of our arrangement with AT, the County maintains \$20,000 in a bank account to pay claims. AT is authorized to access the account in cases where immediate WC claims are warranted. Otherwise, funds are wired twice weekly to cover pending claims submitted, reviewed and approved by HR staff. Reimbursements and refunds received by AT are sent to Cobb County to be deposited. We believe this imprest account could be used to deposit the refunds received by AT, which would reduce the number of replenishments needed and save HR staff the time and effort of processing and depositing the payments. AT can provide HR with a reporting of the refunds on a periodic basis or as needed. HR contacted AT to discuss the proposed change and the revised process has already been implemented.

Excessive WC benefit payments

Occasionally employees receive excessive WC benefits they are required to repay to the County. The County enters into an informal payment arrangement with the employee to send their payments to the WC coordinator. When payments are received, the coordinator posts the payment to an EXCEL spreadsheet and sends the payment to Finance for deposit. Sometimes the payment is routed to another HR staff who processes the payment and does not notify the coordinator and the employee does not receive credit for the payment. This may require the coordinator to contact the employee unnecessarily and perform additional research to ensure the employee's payment was received.

Tracking these outstanding balances using the accounts receivable method described in the direct payee section would streamline the process, eliminate manual monitoring, and solve the bypass problem.

²¹ The fund promotes the employment and retention of workers with disabilities. The fund reimburses indemnity and medical expenses exceeding the deductible levels of 104 weeks indemnity and/or \$5000 medical.

²² The substitution of one claim for another, especially the transfer of right to receive payment of a debt to somebody other than the original creditor.

Recommendation

The Human Resources Director should:

Recommendation 9: Coordinate with the Finance Department to set up automatic payroll deductions for excessive benefit payments due to the County. In cases where the employee separates from service, a receivable should be set up and monitored utilizing the Advantage Financial System.

Auditee Response: **Concur** - Human Resources will develop and implement standard operating procedures to address the collection of excessive benefit payments due to the County. Whenever possible this will be addressed through adjustment of future benefit payments through the TPA. If needed we will coordinate with Payroll to recover these benefit payments. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

Procedures for monitoring and accounting for outgoing payments needs improvement

Outgoing Premium Payments and Administrative Fees Need to be Validated

HR initiates payments to pay premiums, claims and administrative fees for life, health, dental and other supplemental benefits. These payments can exceed \$5 million a month, with additional annual premium payments of approximately \$435,000.

Cobb County has vendors who help us administer our health and dental plans:

- Blue Cross Blue Shield - Healthcare (Preferred Provider Option, Health Maintenance Organization, Open Access Point of Service)
- Cigna (Dental)
- Cigna Surround (over 65 supplemental healthcare coverage)
- Kaiser Permanente – HMO Plan
- Kaiser Senior Advantage – (over 65 supplemental healthcare coverage)
- Medco – Pharmacy
- Medcom – Flexible Spending
- Hartford Insurance – Life, Long Term Disability, Accidental Death and Dismemberment
- Symetra – Stop Loss Insurance

HR also initiates payments to pay claims, fees and other payments related to the WC program. The vendors and insurance providers related to the program are:

- AmTrust North America Inc.
- State Board of Workers' Compensation Annual Assessment
- New York Marine - Excess Claims Insurance
- Subsequent Injury Trust Fund²³ (SITF)

²³ Established July 1, 1977, the Subsequent Injury Trust Fund is designed to reduce the impact of singularly large workers' compensation claims in the event a worker with a disability, injured on the job, aggravates a pre-existing permanent impairment. The fund provides employers with incentives to hire or retain qualified workers with disabilities.

Other vendor payments include those for amounts withheld from employees' wages to pay premiums for other supplemental benefits. The County does not contribute to supplemental benefits. These premiums currently total over \$250,000 a month. These vendors are:

- AFLAC²⁴ – Various supplemental insurances
- United Health Care – Vision Insurance
- UNUM Life Insurance – Supplemental Life Insurance

We evaluated the controls over the processing of these outgoing payments and determined that HR does not consistently conduct validation tests of the accuracy of the outgoing payments prior to payment. As a result, payments for fees and services have been both over and underpaid. Validation is a control activity to help ensure all transactions involving outgoing payments are accurate and complete. Management's periodic review of the validation results are also critical to ensure this practice is performed consistently and to ensure significant issues are identified and resolved in a timely manner.

Blue Cross Blue Shield Payments

Administrative Service Only (ASO) Fee

Blue Cross Blue Shield (BCBS) provides administrative services for the County's self-insured healthcare plan and is paid via a monthly ASO fee. The ASO fee is calculated by multiplying the number of employees and retirees enrolled in the plan each month times the established billing rate. The County self-bills by providing BCBS with the employee and retiree counts that they use to bill us. The fee averages \$158,000²⁵ per month.

We independently tested the July 2012 BCBS invoice by obtaining an independent file from Finance of employee and retiree healthcare coverage as of September 5, 2012, and compared it to the HR self-billed file as of June 29, 2012 (used for July billing). June and July hires were excluded, as they were not eligible for benefits at the time of HR's report. We also added back people who terminated employment during the dates between the two files and Cobra payees. Our analysis showed there were 4,452 enrollees in the BCBS plan as of June 29, 2012 versus HR's count of 4,430 for the same time. This discrepancy was discussed and forwarded to HR staff for further research. As of the date of this draft report, the cause of the discrepancy and status of benefit coverage remains outstanding. An additional 22 enrollees would result in a potential underpayment of the July premium of \$776, if confirmed. The discrepancy in the enrollee count also affects the calculation of the Symetra premium, which is also based on the count of enrollees in the BCBS plan. See titled sections below.

Capitation Fee

Included in the monthly billing from BCBS is a fee for capitation.²⁶ The contract with BCBS does not give details on how this fee is calculated and HR employees could not tell us the basis for this fee that averages \$224,786²⁷ a month.

²⁴ Payments to AFLAC include premium deductions for companies no longer included in the County's supplemental benefit programs – Manufacturers Life, American Heritage Life and American Heritage Short Term Disability.

²⁵ Average monthly fee from January 1, 2012 to July 31, 2012.

²⁶ Capitation is a method of paying healthcare service providers (e.g. physician or nurse practitioners) a set amount for each enrolled person assigned to that physician or group of physicians, whether or not that person seeks care, per period of time. Generally, these providers are contracted with a type of health maintenance organization (HMO) known as an independent

Review of the July billing showed that one element of the fee calculation is the number of covered individuals in the plan. Information Services staff generates a file each week that is sent to BCBS showing the number of covered individuals in the HMO plan. We obtained the file for June 27, 2012 and determined the number of covered individuals was reported as 7,526. We compared this number to the number billed the County (7,508) and noted only a difference of 18 people. Other than timing differences, we were unable to determine the true reason for the difference. HR should determine from BCBS how this fee is calculated and determine if it can be validated each month prior to paying the invoice.

Claims Processing

Medical claims submitted by enrollees are processed by BCBS. They bill us weekly for the claims paid. A determination of the billing accuracy and methodology will be performed in a separate audit.

Cigna Dental

Cigna provides administration of the County's self-insured dental program. ASO fees are billed on a monthly basis and averaged \$12,000²⁸ per month. The billing is based on the number of employees enrolled in the dental program multiplied by a contract rate. HR sends Cigna a weekly report of enrollees that Cigna uses to match against their records. A discrepancy report which lists enrollees to be canceled, invalid members or dependents, and other errors or conflicts is then sent to HR. HR researches the discrepancies for agreement/non-agreement and sends needed updates to Cigna.

We determined there was no process to reconcile the list of enrollees from Cigna and noted that invoices were paid without any validation. Not validating the invoice resulted in overpayment of the ASO fee and possible claims payments for ineligible participants. We independently performed a validation of the July invoice by matching the Cigna listing of enrollees to County payroll deduction reports. We determined that there were 220 enrollees on Cigna's listing that were former employees or had been previously enrolled under COBRA coverage. Most of the former employees had separated from service with the County as far as two years prior to our fieldwork. We also identified 18 current employees that were not included on Cigna's listing. This resulted in a net discrepancy of 202 enrollees at \$2.90 per enrollee totaling \$586 in overpayment for July 2012 alone.

Subsequently, a list of the 220 terminated enrollees along with their termination dates was provided to CIGNA. CIGNA acknowledged this issue and provided a credit, in the November 2012 and March 2013 invoices, for the overpayment of ASO fees totaling \$15,272.56.

We also facilitated a meeting with HR staff and Cigna representatives and requested a list of the total claims amount paid for these erroneous enrollees since their date of separation, if any. Our analysis of the claims list provided by CIGNA indicated that 16 of these separated enrollees had \$6,583.50 of claims paid subsequent to their termination date. A final determination by HR of the extent of possible claims payments is still pending as of the date of this report. We will continue to follow up on the results of these overpayments. Those results will be included in our standard audit follow-up reports.

practice association (IPA). The HMO contracts with the providers to have the latter take care of patients enrolled in the HMO. Most often, payment for such a service is under the capitation system.

²⁷ Average October 2011 to July 2012 (ten months).

²⁸ Based on average of fee paid January through August 2012.

Cigna Medicare Surround

Cigna Surround provides medical and prescription drug coverage for Medicare-eligible retirees and their Medicare-eligible dependents. Cigna sends a monthly invoice for the County's portion of the premiums. HR did not perform a validation of the invoices prior to payment in July 2012. Our testing revealed a minor variance, but we did not take exception because effective January 1, 2013, this plan was discontinued and replaced with the new ExtendHealth plan option.

Kaiser Permanente Payments (HMO and Senior Advantage)

Kaiser Permanente (KP) is a fully insured healthcare and prescription drug insurance carrier available to employees and retirees. The Senior Advantage supplemental coverage was offered to only Medicare-eligible retirees. There are no ASO fees or claims payments associated with this vendor. The County receives a monthly invoice from KP for all participants in the plan. HR does not consistently verify this invoice nor follow up to determine whether KP adjusts their billing to account for the discrepancies identified.

Although there was evidence the June and August invoices were validated prior to payment, we determined that the July invoice had not been validated. Our testing of the July invoice showed five employees where the County paid the incorrect premium rate resulting in a \$627 underpayment. Not performing an analysis consistently could allow errors to go undetected and inaccurate payments to be made.

In cases where the invoice is validated, HR verifies the billing by downloading a detailed listing of plan participants and their chosen plan option from the KP website. HR matches this detailed listing to data obtained from payroll deduction registers for the same period, and any discrepancies are sent to KP for resolution. We did not see evidence that HR performed any follow-up on reported discrepancies to ensure KP gave the County proper adjustments in future billings.

Effective January 1, 2013, the Senior Advantage supplemental coverage of the KP plan was discontinued and replaced with the new ExtendHealth plan option.

Medco

Medco administers the self-insured prescription drug plan for people enrolled in BCBS. Twice a month, Medco bills the County for claims submitted for prescription drugs. Once a month, Medco includes on the invoice, charges (averaging \$10,000²⁹) associated with the administration of the plan. Medco charges different rates for various components (i.e. utilization management fee) of the administrative fee, which are based primarily on the number of claims processed during the billing period. HR has no way to verify the number of claims processed, but could verify the proper rate is charged for the services provided. We compared the rates on the July invoice to the stipulated rates in the contract and noted no discrepancies. Testing of claims submitted will be performed in a subsequent audit of third party administrators.

²⁹ Based on average of fee paid January through June 2012.

Another component of the invoice can be validated. Medco also charges a monthly fee for the Rational Med³⁰ program that is based on the number of covered individuals provided by BCBS). HR could verify the number of covered individuals billed by agreeing to the County's internal records.

We tested the reasonableness of the number used for covered individuals by comparing the July 2012 invoice number of 10,069 to the 2011 year-end count of 10,333 as provided by the County's healthcare consultant.³¹ The difference of 264 participants appears reasonable since there was a seven-month period between year-end and the July invoice.

Medcom

Medcom is the administrator of the flexible spending account (FSA) for employees. Flexible spending accounts provide a way for employees to pay for certain unreimbursed health care and dependent childcare expenses with tax-free dollars.

Houze and Associates³² pay the administrative fee for the program; however, the County is required to maintain a \$75,000 balance in an account to pay FSA claims. Twice a week the account is replenished when Medcom sends a reimbursement request for FSA claims paid. Each pay period, Houze performs a validation of employees participating in the flexible spending program. HR sends Houze a download of employees with a FSA deduction that is used to compare to Houze's list of FSA participants. Any discrepancies are sent to HR for resolution. Medcom is then notified of any action required to deactivate any accounts.

Hartford Insurance

Hartford provides the County with basic life, accidental death and dismemberment (BL/ADD), and long-term disability (LTD) insurance coverage. Employees also have the option of buying additional supplemental life, ADD, and LTD for themselves, as well as dependent life coverage. Hartford provides the County with a template to calculate the monthly premium due for the coverage offered.

Long Term Disability

The LTD premium is based on the computed monthly salary paid to all employees. The monthly salary amount is computed by annualizing the first pay period salary of each month divided by 12 months. The monthly premium for LTD is calculated using the computed monthly salary amount, multiplying by the premium rate³³, and dividing by the unit size of \$100³⁴. Employees who decide to purchase additional LTD coverage pay a direct premium based on their salary. The County does not contribute to this additional coverage.

We tested the July premium calculation for LTD and the additional supplemental coverage and determined that the HR calculations used were accurate. The additional supplemental premiums remitted on behalf of employees also agreed with the payroll deduction registers.

³⁰ Component of the Medco contract that involves the analysis of drug usage by enrollees to identify potential safety and health risks.

³¹ McCart Group Inc., Healthcare Consultant, keeps a count of the number of participants in all healthcare plans.

³² Provides for the County, annual benefit enrollment and administrative services including flexible spending account administration.

³³ Premium rate is \$.273 per \$100 of monthly salary as noted in the policy.

³⁴ Unit size is as noted in the policy.

Basic Life and Accidental Death and Dismemberment

The BL/ADD premium is computed by calculating the Total Benefit Amount (TBA), multiplied by the 2012 per unit rate of \$.121 and dividing the result by the unit size, \$1,000. The TBA is calculated using the annual salary of the three classes of active employees. (See chart below). Any additional amount of insurance purchased by employees is based on their salary and paid directly to Hartford via payroll deduction.

Classes of Employees and Insurance Benefits

Class	Class Definition	Employee Benefit
1	All active full-time Superior Court Judges	1 times your annual earnings, ³⁵ rounded to nearest \$1,000
2	All active full-time Judges excluding Superior Court	1 times your annual earnings, ³⁶ rounded to nearest \$1,000
3	All other active full-time employees	2 times your annual earnings, ³⁷ rounded to nearest \$1,000

Table 1 – Source: Cobb Benefits, CobbWeb

HR relies on an internal systemic calculation of the premium in the HR Advantage System. We tested the July premium calculation for Life/ADD and the additional supplemental coverage and determined that the methodology for determining the BL/ADD premium was correct. The additional supplemental premiums remitted on behalf of employees also agreed to the payroll deduction registers.

Symetra

Symetra Life Insurance Company provides excessive loss insurance coverage for medical claims exceeding \$300,000 per individual for people enrolled in the BCBS health plan. The monthly premium averages \$79,000.³⁸ HR prepares the self-billing form with the number of single and family participants multiplied by the respective contracted rates and remits the total to Symetra.

Using the July 2012 billing form, we determined that the rates used for billing agreed with the contract rate for both single and family. We also determined that the number of participants in each category (single or family) agreed to the quantity of BCBS members computed by HR. However, our testing of the enrollee count (see section on BCBS) identified 22 additional enrollees that could not be accounted for by HR. If the 22 additional enrollees prove to be valid, the resulting underpayment of the July Symetra premium would range between \$201³⁹ and \$521.⁴⁰

Workers' Compensation Program

AmTrust (AT) administers the Workers' Compensation Program for the County. Under the agreement, the County pays AT an administrative fee, averaging \$9,000⁴¹ a month, based on the number of medical and indemnity (insurance) claims processed. The County also pays two additional WC related assessments - the Annual State Board of WC fees and annual assessment for the Subsequent Injury Trust Fund.

³⁵ Annual average rate of pay from the County immediately prior to the most recent last policy anniversary date.

³⁶ Annual average rate of pay from the State and County immediately prior to the most recent last policy anniversary date.

³⁷ Regular annual rate of pay, not including commissions, bonuses, tips and tokens, overtime pay or other fringe benefits or extra compensation, in effect on January 1st.

³⁸ Average from January to August 2012.

³⁹ 22 employees times \$9.15 ASO charge for single enrollee coverage.

⁴⁰ 22 employees times \$23.66 ASO charge for family enrollee coverage.

⁴¹ Average paid fee from months January through August 2012.

Administration fee

The amount paid for the administrative fee is validated each month by HR staff who matches the number of billed claims to a spreadsheet that lists all the claims processed. This process also includes a test to ensure that each claim is valid according to the County's records. We independently verified the July 2012 invoice, determined that the rates billed were correct, and recalculated the invoice totals without exception based on the supporting claims schedules included with the summary invoice.

Annual State Board of WC⁴² Fee

The County receives an annual invoice from the Board. Code Section 34-9-63 of the Georgia Code Annotated provides that 'the total expenses of the State Board of Workers' Compensation be prorated among the qualified insurance companies writing compensation insurance in this state and employers subject to the provisions of this chapter whose workers' compensation insurance coverage is not written by these companies including, but not limited to, the state, counties, municipalities, and any political subdivisions or authorities thereof.'

'The prorated assessment is based on the amount of premium, which they would have had to pay in the event they had insured their liability with an insurer.' For the County, a self-insurer, the annual assessment is based on the total payroll for the previous calendar year.

In order to determine if the 2012 assessment was accurate, we recomputed the factors used to calculate the annual fee and found that the amount reported for 2011 did not include employees who were terminated during the year and certain pay types (i.e. differential pay) for Public Safety personnel. This error excluded approximately \$9.5 million in payroll amounts that caused the annual assessment to be understated by approximately \$3,000. Based on discussions with both Information Services, Finance and HR staff, we determined that a flaw in the query used caused the error. Subsequent to our discussion, the query was analyzed and corrected, but we did not determine how long the incorrect query had been used. Discussion regarding the repayment of the underpayment remains ongoing.

In order to ensure the annual assessment fee we pay is accurate, HR should verify the calculations and data used to compute the fee by agreeing it to Finance's calendar year gross earnings (W-2) and independently calculating the fee using the established methodology.

New York Marine Insurance Payment

New York Marine (NYM) provides excess workers' compensation insurance for claims in excess of \$650,000 per occurrence. An initial deposit premium payment is made at the beginning of each fiscal year using estimated payroll amounts provided by HR. Within 45 days of each fiscal year-end, a final premium amount is computed based on the actual gross earnings. The County pays the additional amount by which the final premium exceeds the deposit premium. If the final premium is determined to be less than the deposit premium, no adjustment is made.

We attempted to confirm the beginning payroll numbers used to compute the initial deposit premium, but the information was not readily available. We questioned the factors used to pull the information and discovered that, similar to the annual assessment query on the previous page, it did not include employees who had termed during the fiscal year and certain pay types of Public Safety personnel.

⁴² Mission is to provide superior access to the Georgia Workers' Compensation program for injured workers and employers in a manner that is sensitive, responsive, and effective and to insure efficient processing and swift, fair resolution of claims, while encouraging workplace safety and return to work.

The broker for this insurance actually questioned the significant change in payroll amounts, but we were unable to determine the outcome. Information Services staff has since revised the query and the correct figure was used for the FY2012 final premium payment calculation. As a result, the year-end payment for the difference was much larger than anticipated. See table below for FY2010 through FY2012 payroll amounts reported and respective premium paid.

Difference in Beginning and Ending Payroll Estimates

	FY2012	FY2011	FY2010
Beginning Payroll	\$179,434,768	\$209,683,391	\$215,340,128
Ending Payroll	\$214,368,021	\$203,679,038	\$218,736,462
Difference	<u>\$34,933,253</u>	(<u>\$6,004,353</u>)	<u>\$3,396,334</u>
Initial Deposit Premium	\$216,271	\$252,726	\$233,860
Total FY Premium	<u>\$258,051</u>	<u>\$245,545</u>	<u>\$237,548</u>
Additional Premium Paid	<u>\$41,780</u>	<u>N/A</u>	<u>\$3,688</u>

Table 2 – Source: Invoices for New York Marine for FY2010 to FY2012.

HR should ensure that the beginning estimates and year-end actual payroll amounts are accurate, the source of the information is validated, and the methodology is re-computed so the premium paid to NYM is accurate and the year-end premium adjustment is kept to a minimum.

Subsequent Injury Trust Fund

SITF provides evaluations, reimbursements, information and related services to employers in WC claims involving individuals with pre-existing disabilities. In accordance with O.C.G.A. Section 34 Article 9, the County receives an invoice for its portion of the annual SITF assessment for self-insurers; however, HR does not validate the invoice prior to payment. We recomputed the factors used to calculate the annual fee that is based on the prior year’s net claims⁴³ paid by the County.

Our test showed that the amount of third party recoveries was understated by over \$140,913 and there was a math error on the form. This resulted in an overpayment of the calendar year 2011 annual fee by \$9,972. As a result of our findings, HR submitted a revised form to SITF and was informed that SITF will provide the County with a credit against the 2012 annual assessment. We also found that AmTrust, our WC third party administrator, provides the numbers used to compute the assessment amount. HR does not verify the accuracy of the data provided by AmTrust and is currently looking into other inconsistencies in the data provided by AmTrust.

AFLAC/American Heritage/Manufacturers Life Insurance

AFLAC payments are supplemental benefits for which the employee is solely responsible. There is no employer amount paid, and the County operates as a pass-through whereby amounts are deducted from employee paychecks and forwarded directly to the supplemental vendor.

⁴³ Total workers’ compensation claims minus reimbursements from SITF and other third party recoveries (i.e. subrogation, medical refunds and insurance settlements).

HR generates a monthly report that identifies the premiums withheld from employees' pay for AFLAC and American Heritage/Manufacturers Life Insurance (old supplemental life providers) coverage. The information is sent to Finance which they verify to payroll records. Accounts Payable sends a check to AFLAC who in turn sends, as a courtesy, the premium payments to American Heritage and Manufacturers Life insurance companies. HR sends a report to AFLAC listing all the employees and the premiums withheld.

We independently tested the accuracy of the information sent to AFLAC for July 2012. We agreed the information on the HR report to payroll deductions for the same period without exception.

United Healthcare

Premiums for vision care are deducted from employees' earnings each pay period and remitted to the vendor on a monthly basis. We obtained the July 2012 deduction registers used by HR and independently agreed the totals to payroll records with no exception. We also agreed the deductions to the appropriate rate depending on the chosen plan (single or family).

UNUM Life Insurance

Rates for supplemental life insurance vary per employee. Premiums are deducted from employees' earnings each pay period remitted to the provider. We independently agreed the July 2012 submission to payroll records without exception.

ExtendHealth

Effective January 2013, the County began offering Medicare-eligible retirees a new way to access health care coverage from a variety of individual healthcare plans. Under the new plan, the retiree selects the coverage they want and they are responsible for making their own premium payments. The County will make a monthly payment to the retiree's Health Reimbursement Arrangement account which the retiree uses to get reimbursement for their premiums and other qualified expenses. HR will still need to verify that the County's payment is for an eligible retiree or beneficiary.

Recommendation

The Human Resources Director should:

Recommendation 10: Develop written procedures to ensure HR employees perform a validation of all invoices prior to payment on a consistent basis. Rates and eligibility should be confirmed, numbers used to calculate premiums and fees should be evaluated for accuracy, and reports used to provide information for billing should be periodically confirmed for accuracy. All discrepancies noted during validation should be documented, communicated to the necessary parties for resolution, and subsequently monitored to ensure billings or internal reports are adjusted accordingly. The Human Resources Director should also require an attestation of validation by both HR staff and his/her HR Manager for each invoice approved for payment. Finally, the Human Resources Director or his designee should perform periodic, unannounced reviews of invoice validation documentation to include the resolution of any discrepancies identified.

Auditee Response: Concur - Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

Contract management practices need to be improved

During our audit, we needed to review the contracts that supported the payments processed in HR. Because established contract management practices were not being followed, we noted the following conditions:

- Contracts and/or amendments were not readily available for review.
- Contract documentation was incomplete or missing critical information.
- Contract coordinators were not familiar with contract provisions, did not monitor the vendors' performance of the contract stipulations, and authorized payment of invoices without verification of the billing accuracy.

Every department in the County is responsible for establishing effective contract management practices, including maintaining a copy of the contract, designating staff responsible for overseeing contract compliance, and maintaining a contract-tracking database.

HR does not have written contract management procedures that provide the contract administrators with additional guidance to effectively manage the contracts for which they are responsible. Managers primarily monitored the expiration date of contracts so they can be renewed, but additional instructions on how to monitor performance and verification of billings was not readily available. As a result, there is no consistent assurance that vendors are meeting contract stipulations or whether vendors were under or overpaid. We are aware that HR conducts annual review meetings with select TPAs such as BCBS, Cigna, Medco, Medcom, and AmTrust to review their overall performance.

Recommendation

The Human Resources Director should:

Recommendation 11: Develop written contract management procedures and ensure designated contract administrators follow best practices in contract administration to include:

- Understanding the mutual obligations of the contract.
- Ensuring the proper implementation of all contract specifications.
- Ensuring the timely and accurate payment of the vendor's invoice.
- Maintaining contract documentation including:
 - Copies of contracts;
 - Copies of all amendments;
 - Copies of correspondence (i.e. notes from meetings and phone conversations);
 - Copies of invoices; and
 - A log of problems, proposed solutions and results.

Auditee Response: **Concur** - Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

Basic internal control practices need to be improved

Throughout our review, we noted a lack of adherence to basic internal controls specific to segregation of duties and supervisory review. HR staff facilitated several aspects of financial transactions and many were done without adequate supervisory review.

Segregation of Duties

Segregation of duties involves separating activities among different persons in an effort to reduce the risk of errors or inappropriate activity. Generally, no one person should have the ability to initiate, approve and record transactions; review the related reports; and perform the respective reconciliations. In extreme cases, a detailed supervisory review may be used as a compensating control but only if necessary.

During our audit, we identified instances where HR staff handled incoming payments, recorded the transactions, made system changes regarding eligibility, and reviewed the related reports for the same transactions. In cases of outgoing payments, HR staff was able to download reports, make County and vendor system changes, resolve discrepancies, perform reconciliations, and approve invoice payments. In addition, a number of the internal documents are accessible to various HR staff and can be modified with HR management's knowledge.

Supervisory Review

We also found that HR staff were able to make changes to both County and vendor systems without any type of supervisory approval or review. Oftentimes, there is no audit trail (documentation) to identify what, when and by whom the changes were made and why the changes were necessary. In cases of management-approved changes, no subsequent review or reconciliation was performed to ensure the appropriate transactions were changed as intended. Erroneous changes to records could affect employee benefit coverage and the accuracy of incoming and outgoing payments.

Management reviews at the functional or activity level is a basic internal control activity which compares actual performance to planned or expected results. This activity must be ongoing to ensure expected management objectives and goals are met. These activities include approvals, authorizations, verifications, reconciliations, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

Recommendations

The Human Resources Director should:

Recommendation 12: Revise current procedures and implement changes to ensure the proper segregation of duties exist throughout the processing of incoming and outgoing payments. For example, in addition to implementing the accounts receivable in Advantage Financial, HR staff that make deposits should not be able to modify accounting or eligibility records. Employees who handle incoming payments should not be maintaining or modifying the internal accounting records.

Auditee Response: **Concur with alternate solution** - Human Resources will recommend a reorganization of staffing to the County Manager to accommodate a separation of duties for benefit eligibility/receivables and financial payments/deposits under two separate managers.

This new reorganization will provide for two HR Coordinator positions reporting to separate managers to administer day to day activities for eligibility and financial payments. Two HR Techs each reporting to separate managers will be responsible for the account receivable statement of accounts and the deposits.

Human Resources receives and deposits approximately \$350,000 annually and recommends direct payments be received by the County via EFT of individual checking accounts rather than by manual payment requiring cash handling and deposits. This would minimize the amount of cash handling and deposits processed through Human Resources

Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks) and Employee Services Manager (Michelle Page).

Recommendation 13: Revise current procedures to ensure HR staff indentifying discrepancies should not be able to make changes to either the County or vendor's systems without adequate oversight. All changes to County or vendor systems should be tracked via an audit trail mechanism. This mechanism could be reviewed periodically by HR management to ensure all changes are valid and accurate.

Auditee Response: Concur - Human Resources has spoken with vendors and will only have view only access. All other eligibility changes will be made through electronic file or direct contact with the vendor. Human Resources has determined that there is not an adequate audit trail functionality in the County's system, therefore we will implement additional controls to ensure all changes are identified and approved by HR management. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks) and Employee Services Manager (Michelle Page).

Detailed Objectives, Scope, and Methodology

We conducted our review as part of our annual audit plan and the request of the Human Resources Director. Our review period covered financial transactions for Fiscal Year 2012, with direct focus on payments received and paid in July 2012.

Our overall objective was to determine if controls are adequate to ensure that employee benefit payments received in Human Resources (HR) are properly accounted for, efficiently processed and deposited; and payments initiated for premiums and administrative program fees are accurate and efficiently processed.

In order to accomplish our objective, we performed the following steps:

- I. Determined if incoming payments from direct payees, benefit providers and administrators were properly controlled.
 - A. Determined if direct payments⁴⁴ from employees were properly controlled and accounted for.
 - B. Determined if Temporary Coverage given to families of deceased current and former employees was limited to 90 days and converted to COBRA or terminated.
 - C. Determined if payments for COBRA coverage was properly accounted for.
 - D. Determined if AFLAC monthly commission (group renewal fee) amount was verified.
 - E. Determined if reimbursement payments received from the workers' compensation administrator were properly controlled and accounted for.
 - F. Determined if monthly retiree premium amounts received from SunTrust and Cigna were verified.
 - G. Determined if payments received to pay back retirement withdrawals retirement checks received after the death of a retiree were properly controlled and accounted for.
- II. Determined if premium payments and administrative fees paid to benefit providers (third-party administrators (TPA)) were validated.
 - A. Determined if workers' compensation fees and invoices were accurate.
 - B. Determined if AFLAC monthly premium payments were validated.
 - C. Determined if employees' policies with Manufacturers Life, American Heritage Life and Short Term Disability Insurance were in force.
 - D. Determined if premiums and administration fees were validated for the respective healthcare and supplemental insurance providers.

⁴⁴ Direct payments include the estimated 101 identified during fieldwork.

- III. Determined if there is a more efficient way of processing the benefit payments in HR.
- A. Discussed with Finance and HR whether direct payments can be sent directly to Finance for deposit and accounting. Also, discussed the option of implementing an online payment option for employees and retirees.
 - B. Discussed with Finance and HR whether the pension administrators monthly benefit check can be sent via ACH to the County's account.
 - C. Discussed with Finance and HR whether Workers' Compensation related checks could be sent directly to Finance for deposit and accounting.
 - D. Discussed with Finance and HR whether the monthly AFLAC commission check and employee refund checks can be sent directly to Finance for deposit and accounting.
 - E. Discussed with Finance and HR whether BCBS, Kaiser Permanente, CIGNA Dental, and Hartford Insurance requests for replenishment and/or charges for administrative fees can be processed (wire transferred) in Finance.
 - F. Discussed with Finance and HR the option of discontinuing the collection of premiums for Manufacturers Life and American Heritage Life and Short Term Disability Insurance.

Abbreviations and Glossary

ASO	Administrative Service Only
AT	AmTrust
BCBS	Blue Cross Blue Shield
BL/ADD	Basic Life/Accidental Death and Dismemberment
CGI Advantage	County's Financial and Human Resources System
COBRA	Consolidated Omnibus Budget Reconciliation Act of 1985
FSA	Flexible Spending Account
HR	Human Resources
KP	Kaiser Permanente
LTD	Long Term Disability
NYM	New York Marine
SOA	Statement of Account
SITF	Subsequent Injury Trust Fund
TBA	Total Benefit Amount
TPA	Third Party Administrator
WC	Workers' Compensation

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Division Manager
Barry G. Huff, Auditor-in-Charge
Steven Harper, Staff Auditor

Final Report Distribution List

Tony Hagler, Human Resources Director
Jim Pehrson, CPA, Finance Director/Comptroller
Roxane Rush, Finance Division Manager
Internal Audit Division File

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. This benefit will be incorporated into our annual report to the County Manager and Board of Commissioners.

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Potential; (\$776) in potential **underpayment** of BCBS administrative fee. (See page 14).

Methodology Used to Measure the Reported Benefit:

We compared a file of BCBS participants obtained from the Finance Department and to the HR file used to report to BCBS the employee and retiree participants. We identified 22 additional enrollees that were not reported or paid for on the July invoice. Based on the respective plan selections, this would be a potential underpayment of \$776.

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Potential; (\$3,000) in potential **underpayment** of Annual State Board of Workers' Compensation Fee. (See pages 18-19).

Methodology Used to Measure the Reported Benefit:

We recomputed the factors used to calculate the annual fee, which is based on the prior year's salary. The reported amount was understated by \$9.5 million because certain employees and pay types were excluded in error. The error has been corrected and the report revised

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Actual; \$9,972 **credit** due to **overpayment** of the Subsequent Injury Trust Fund (SITF) annual fee. (See page 20).

Methodology Used to Measure the Reported Benefit:

We obtained the report provided to SITF to test the accuracy of the amount of the annual assessment. Using the information on HR's tracking spreadsheet, we determined that third party recovery amounts were understated by \$140,913, which resulted in an overpayment of \$9,972. An amended report was submitted to SITF and HR confirmed the credit would be reflected on the 2013 assessment.

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Potential; \$627 **underpayment** of premiums to Kaiser Permanente. (See pages 16).

Methodology Used to Measure the Reported Benefit:

We reviewed the invoice paid in July 2012 (August coverage) to ensure charges were validated prior to payment. We compared the enrollee information download from KP to a WEBI report from the HR system and matched the enrollees and premiums charged. Our testing showed five employees where the county paid the incorrect premium rate resulting in an underpayment of premium of \$627.

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Actual; \$15,272.56 **refund** of Cigna dental administration fee. (See page 15).
- Increase Revenue/Revenue Protection – Potential \$6,583.50 **refund** of **claims** paid for erroneous enrollees in the CIGNA dental plan. (See page 15)

Methodology Used to Measure the Reported Benefit:

We performed a validation of the July invoice by matching the CIGNA listing of enrollees to the listing of enrollees obtained from a download of payroll records. We determined there were 220 enrollees on their listing that were not current County employees or former employees enrolled under COBRA. We also identified 18 current employees that were not on their listing. Cigna refunded \$15,272.56 in ASO fees related to the 220 erroneous enrollees, on the November 2012 and March 2013 invoices. In addition, a dental claims file was obtained from CIGNA. We reviewed the file for claims paid to any enrollee after their termination date. We identified 16 enrollees with a total of \$6,583.50 of claims paid after their termination date.

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Potential; (\$201 to \$521) **underpayment** of Symetra Insurance (medical claims excessive loss) premium. (See page 18).

Methodology Used to Measure the Reported Benefit:

Using the July billing invoice, we compared a file of BCBS participants obtained from the Finance Department to the HR file used to report to BCBS the employee and retiree participants. We identified 22 additional enrollees that were reported and paid on the July invoice. If the 22 additional enrollees prove to be valid, the resulting underpayment of the July Symetra premium would range between \$201⁴⁵ and \$521⁴⁶.

⁴⁵ 22 employees times \$9.15 ASO charge for single enrollee coverage.

⁴⁶ 22 employees times \$23.66 ASO charge for family enrollee coverage.

Type and Value of Outcome Measure:

- Reliability of Information – Recommendations, when implemented, will provide assurance of the completeness and accuracy of both incoming and outgoing payments. (See pages 3-24).

Methodology Used to Measure the Reported Benefit:

Based on our fieldwork, we estimated the amount of funds⁴⁷ processed or approved by HR to be \$60 million annually.

⁴⁷ Direct payments, outgoing payments and claims.

Auditee Response



Anthony B. Hagler
Director

MEMORANDUM

DATE: April 24, 2013

TO: Latona Thomas, CPA, Manager, Internal Audit

FROM: Tony Hagler, Human Resources Director *[Signature]*

SUBJECT: Response to the Internal Audit Division's Draft Report – Review of the Controls Over the Processing of Benefit Payments and Invoices in the Human Resources Department.

This memo is in response to the subject report dated February 8, 2013. The review determined that the process used to identify and monitor incoming payments is labor intensive and time consuming. And that procedures for monitoring and accounting of outgoing payments need improvement.

You made several recommendations and our response to those recommendations are provided below.

The Human Resources and Information Services Directors should:

Recommendation 1: Develop a) an automated report to identify changes in the weekly benefit eligibility submissions from Information Services to healthcare providers; and b) a periodic report of all new individuals with an employment code of inactive, termed or death. Human Resources staff should research these changes, identify the persons requiring direct payments, and ensure the requirements to maintain coverage is properly communicated and documented. A Human Resources Manager should be designated to periodically review and initial the report as evidence that the process was properly completed. This recommendation will also provide assurance regarding the completeness of ongoing eligibility.

Response: Concur

Using the weekly eligibility files created by IS, HR will compare the current eligibility file with the previous weekly file using the Vlookup feature within Excel. Any identified direct payees will be forwarded to the appropriate HR coordinator for appropriate actions. Human Resources will also recommend a reorganization of staffing to the County Manager to accommodate a separation of duties for benefit eligibility and financial payments. This new organization of duties will provide for two HR Coordinator positions to administer day to day activities for eligibility and financial payments. Each coordinator will report to a separate manager responsible for review and approval of work performed. Complete no later than July 1, 2013.
HR Staff Person Responsible – Employee Service's Manager (Michelle Page)

The Human Resources Director and Finance Division Manager should:

Recommendation 2: Set up account receivables utilizing the CGI Advantage Financial System to monitor the direct payments. These accounts should then be monitored in accordance with each pay period and the results reviewed and approved by a Human Resources Manager.

Response: *Concur with Alternate Solution*

Human Resources will continue to pursue an accounts receivable solution with the Finance Department and Information Services. Recommend direct payments be received by the County via EFT of individual checking accounts rather than by manual payment requiring cash handling and deposits. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 3: Develop a written policy for the termination of health coverage for nonpayment of premium. Adherence to the policy should be evaluated periodically by a Human Resources Manager and documented accordingly.

Response: *Concur*

Human Resources will develop and implement a standard operating procedure for the termination of health coverage for nonpayment of premium that is in line with the SPDs. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

The Human Resources Director should:

Recommendation 4: Establish a policy for how to handle pending deductions, to include what documentation is required and what approval is needed if a deduction is deleted. The policy should also state what actions to take, if any, to collect unpaid deductions and/or the recovery of the respective County's portion already transferred to the claims fund on this individual's behalf. In addition, follow up with the Finance Department and vendor to assess other functional capabilities of the pending deduction report.

Response: *Concur*

Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

The Human Resources Director should:

Recommendation 5: Consult with the Finance Department and vendor and resolve the problem with the SYSTEM-generated pending deduction report and utilize it to identify employees whose pay is insufficient to pay all deductions. The report can be utilized by various HR employees for their purposes such as identifying employees who need to make direct payment of health benefits, deletion of resolved pending deductions, or employees whose flexible spending account (FSA) should be deactivated due to nonpayment of the FSA deduction.

Response: *Concur*

HR will pursue this as a priority with the Information Services Department, then CGI if necessary. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 6: Request AFLAC to provide specific written details of the 5% administrative fee stipulating the terms, period, and basis for the fee. All future AFLAC checks should be made payable to the County only.

Response: *Partially Disagree*

Human Resources does not concur with requesting AFLAC provide written details of the administrative fee reimbursement provided to the County since this is not a contractual obligation, but rather a value added benefit of our relationship with AFLAC. However, I have made such a request to our administrative services provider, Houze & Associates and will continue to follow up.

Human Resources does concur with requesting AFLAC issue all checks payable to the County only and will notify current plan administrator. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

The Human Resources Director should:

Recommendation 7: Contact AFLAC and arrange for employee refund checks to be directly mailed to the employee and Finance notified of the refund so the necessary adjustments to payroll records can be made.

Response: *Concur*

Human Resources does concur with requesting AFLAC issue and mail all employee refund checks directly to the employee and provide Finance/Payroll notification of the refund so the necessary adjustments to payroll records can be made. Human Resources will notify the current plan administrator. Complete no later than July 1, 2013. HR Staff responsible – Employee Services Manager (Michelle Page).

The Human Resources Director and Finance Department should:

Recommendation 8: Set up receivables utilizing the Advantage Financial System to monitor the payments from the pension administrator. In the interim, the monthly verifications should be performed using existing Microsoft Office desktop products.

Response: *Concur*

Human Resources will continue to pursue an accounts receivable solution with the Finance Department and Information Services. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 9: Coordinate with the Finance Department to set up automatic payroll deductions for excessive benefit payments due to the County. In cases where the employee separates from service, a receivable should be set up and monitored utilizing the CGI Advantage Financial System.

Response: *Concur*

Human Resources will develop and implement standard operating procedures to address collection of excessive benefit payments due to the County through adjustment of future benefit payments from TPA, payroll deduction or direct payment to the County. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 10: Develop written procedures to ensure HR employees perform a validation of all invoices prior to payment on a consistent basis. Rates and eligibility should be confirmed, numbers used to calculate premiums and fees should be evaluated for accuracy, and reports used to provide information for billing should be periodically confirmed for accuracy. All discrepancies noted during validation should be documented, communicated to the necessary parties for resolution, and subsequently monitored to ensure billings or internal reports are adjusted accordingly. The Human Resources Director should also require an attestation of validation by both HR staff and his/her HR manager for each invoice approved for payment. Finally, the Human Resources Director or his designee should perform periodic, unannounced reviews of invoice validation documentation to include the resolution of any discrepancies identified.

Response: *Concur*

Human Resources will develop and implement standard operating procedures to address said issue in concurrence with Internal Audit.

Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 11: Develop written contract management procedures and ensure designated contract administrators follow best practices in contract administration to include:

- Understanding the mutual obligations of the contract.
- Ensuring the proper implementation of all contract specifications.
- Ensuring the timely and accurate payment of the vendor's invoice.
- Maintaining contract documentation including:
 - Copies of contracts;
 - Copies of all amendments;
 - Copies of correspondence (i.e. notes from meetings and phone conversations);
 - Copies of invoices; and
 - A log of problems, proposed solutions and results.

Response: Concur

Human Resources will develop and implement a standard operating procedure for review by Internal Audit before finalizing. Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks).

The Human Resources Director should:

Recommendation 12: Revise current procedures and implement changes to ensure the proper segregation of duties exist throughout the processing of incoming and outgoing payments. For example, in addition to implementing the accounts receivable in Advantage Financial, HR staff that makes deposits should not be able to modify accounting or eligibility records. Employees who handle incoming payments should not be maintaining or modifying the internal accounting records.

Response: Concur and Concur with alternate solutions

Human Resources will recommend a reorganization of staffing to the County Manager to accommodate a separation of duties for benefit eligibility/receivables and financial payments/deposits under two separate managers. This new organization of duties will provide for two HR Coordinator positions reporting to separate managers to administer day to day activities for eligibility and financial payments. Two HR Techs each reporting to separate managers will be responsible for the account receivable statement of accounts and the deposits.

Human Resources receives and deposits approximately \$350,000 annually and recommends direct payments be received by the County via EFT of individual checking accounts rather than by manual payment requiring cash handling and deposits. This would minimize the amount of cash handling and deposits processed through Human Resources

Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks) and Employee Services Manager (Michelle Page).

The Human Resources Director should:

Recommendation 13: Revise current procedures to ensure HR staff identifying discrepancies should not be able to make changes to either the County or vendor's systems without adequate oversight. All changes to County or vendor systems should be tracked via an audit trail mechanism. This mechanism could be reviewed periodically by HR management to ensure all changes are valid and accurate.

Response:

Human Resources has spoken with vendors and will only have view only access. All other eligibility changes will be made through electronic file or direct contact with the vendor. Human Resources has determined that there is not an adequate audit trail functionality in the County's system, therefore we will implement additional controls to ensure all changes are identified and approved by HR management.

Complete no later than July 1, 2013. HR Staff responsible – HR Systems & Records Manager (Aleah Hawks) and Employee Services Manager (Michelle Page).