



OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 20, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Benefit Payment and Premium Collections,
Audit 11-13

Dear Mayor Littlefield and Council Members:

On July 27, 2012, the Internal Audit Division released an audit of employee benefit payments and premium collections. We performed certain procedures, as enumerated below, with respect to activities of the Personnel Department in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel, along with review and examination of documentation. It was substantially less in scope than an audit conducted in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 11-13 were that:

1. Adequate steps were not taken to ensure open enrollment records were uploaded correctly. However, improvements were made for the 2012-2013 enrollment period.
2. Benefit change forms for employee insurance are handled in an effective and efficient manner.

3. Proper steps are not taken to verify benefit-related invoices, nor are proper steps taken prior to approval of benefits invoices.
4. Procedures followed to identify if inactive employees benefit payments are current or coverage cancelled are inefficient.
5. Fees charged retirees and inactive employees for benefits are properly calculated. However, cash collections are not properly handled within City Collection Policy guidelines.

The audit contained ten (10) recommendations that addressed the audit's findings. Based on the review performed, we concluded three (3) recommendations have been fully implemented, four (4) recommendations have been partially implemented and three (3) recommendations have not been implemented.

Recommendations Implemented [2, 4, 5]

We recommended (**Recommendation 2**) the Personnel Department create a spreadsheet to ease the difficulty of determining if benefit payments have been received from retirees. One suggestion was to create a spreadsheet with the retirees' name and amount due, with two columns for each month, one for date received and the second to record payment amount. Another possibility was to purchase or develop a database to track amounts due against payments made for retiree insurance, along with associated reporting.

A spreadsheet has been developed allowing clerical personnel to easily determine if retirees have paid premiums, or the number of payments past due. Since the implementation of the new spreadsheet all retirees have been brought current except one, who is making extra monthly payments to become current.

We recommended (**Recommendation 4**) requesting from Blue Cross monthly detailed reports for several randomly chosen departments for the purpose of verifying billings and claim payments, to include:

- Auditing claim charges for reasonability.
- Auditing to ensure employee expenses are charged to the correct department.
- Verifying departmental totals to weekly billings.

A process has been put in place to implement the recommendations mentioned above, and is operational.

We recommended (**Recommendation 5**) the Personnel Department ensure all staff involved with the cash collection process are familiar with the City's Collection Policy, and systems are in place to ensure compliance.

All personnel have been updated on the requirements of the City Collection Policy. Checks received in the Personnel department are opened with the face immediately date stamped and the back stamped "For Deposit Only". Further, all collection reports reviewed after August 2012 had been stamped appropriately and deposited within three business days of receipt.

Recommendations Partially Implemented [1, 3, 6, 8]

We recommended **(Recommendation 1)** Information Services, in conjunction with the Personnel Department, work to provide the resources necessary to implement the entire Oracle Human Resources suite at the earliest possible time. The amount of money expended for employee benefits warrants a high priority.

A four year implementation plan has been developed by the Personnel and Information Services department, and implementation is currently on schedule to implement the HR system. Employee self service and open enrollment is available for use. Retiree processing will be online 3/1/2013.

We recommended **(Recommendation 3)** the Benefits Division devise a process to determine the number of employees covered for non-medical insurance benefit types where charges are based on the number of employees using them. One method was to take the number of employees enrolled in each benefit type as of open enrollment and roll those numbers forward tracking monthly additions and deletions to reconcile to the covered employees billed to the City each month.

Processes have been put in place to track the number of employees using most products, the exception being the Employee Assistance Plan (EAP) and Assurant medical. An RFP is out for EAP and a tracking process will be put in place at implementation of the new contract. A meeting is being arranged with Assurant (medical and dental) to develop a billing format to allow for readily matching of employees in the plan to charges on the monthly invoice.

We recommended **(Recommendation 6)** the Personnel Department work with Information Services to solve outstanding issues related to entering retiree information into the HR system as soon as practicable.

As of 12/8/2012 all retiree information and rate plans are housed in the HR system. The data is currently being checked for accuracy, with implementation scheduled for 3/1/2013.

We recommended **(Recommendation 8)** retiree death-related reporting received from First Tennessee Bank be retained in a central location accessible to all relevant employees of the Personnel Department, with any needed training in the use of them performed.

A process has been implemented to allow Personnel Department employees to acquire and use information from First Tennessee.

We further recommended the Personnel Department request the Fire and Police Pension Fund Administrator provide copies of similar reporting for retirees covered under that plan.

A request for death information of the Fire and Police pension fund has not been made as of this time.

Recommendations Not Implemented [7, 9, 10]

We recommended **(Recommendation 7)** a policy be developed and implemented requiring the reporting of any change in an employee's status, at the time of the personnel action, to Personnel. We recommended all administrators, supervisors and payroll personnel be informed of the policy, and that the policy be approved jointly by the Administrator of Personnel and the Mayor to ensure compliance.

No policy has been developed to further compliance.

We also recommended, in the interim, all information received in Personnel related to employee inactivity, FMLA, etc. be retained in a central location accessible to all relevant employees of the Personnel Department, allowing them to take advantage of the available information. We further recommended the Benefit Division utilize tools such as Microsoft Excel to sort payroll registers for checks lacking sufficient income to pay benefits rather than manually sorting through printed reports.

No procedures have been put in place at this time.

We recommended **(Recommendation 9)** the Personnel Department consider changing the due date of benefit payments for retirees to the 1st day of the month of coverage.

No work has been performed relative to this recommendation.

We recommended **(Recommendation 10)** the Personnel Department update the policy and procedure manual and ensure Personnel employees are knowledgeable of the manual, and that it be accessible to them on the intranet.

No work has been performed to update or distribute the Personnel policy and procedure manual.

We thank the staff of the Personnel Department and Information Services for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,

Stan Sewell, CPA, CGFM
City Auditor

cc: Audit Committee Members
Dan Johnson, Chief of Staff
Donna Kelley, Personnel Administrator
Daisy Madison, Chief Financial Officer
Mark Keil, Chief Information Officer