City of Chattanooga

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

July 27, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

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

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Benefit Payment and Premium Collections.

We thank the management and staff of the City Personnel Department and the City Finance Department for their cooperation and assistance during this audit.

Very truly yours,

Stan Sewell, CPA, CGFM
Director of Internal Audit

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

PERSONNEL DEPARTMENT
BENEFIT PAYMENT AND PREMIUM COLLECTIONS
AUDIT 11-13
July 24, 2012

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Auditor

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Director

PERSONNEL DEPARTMENT
BENEFIT PAYMENT AND PREMIUM COLLECTIONS
AUDIT 11-13

INTRODUCTION

Among benefits available to City employees are health, dental, life and long-term disability insurance and employee assistance program (EAP), as well as an in-house medical clinic. Some types of benefits, such as in-house physicians and EAP, are paid entirely by the City. Others, such as long-term disability and dental insurance, are paid entirely by the employee and administered by the City Benefits Division. Some benefits, such as health insurance, are paid by a combination of employee and employer contributions. The City of Chattanooga contracts with several companies to provide these health benefits for its employees.

Benefit costs are determined using several methods. Health insurance is based on actual claims paid plus a monthly administrative fee per employee. EAP is based on a set amount per employee per month and in-house physician services expense is a set contracted monthly payment. Invoices from these companies are received, confirmed to be correct and approved for payment by Personnel Department employees.

STATISTICS

Payments made to vendors for insurance-related expenses (including both company and employee contributions), exclusive of drugs purchased by the City Pharmacy, for the period July 1, 2010 through June 30, 2011 were as listed below:

City-paid

Life, long-term disability, EAP	$ 796,091
City Health Clinic	1,908,607

City and Employee Shared Expense

Health, Pharmacy, Dental	
(Excluding City Pharmacy drug expense)	25,540,063

Employee-paid

Short-term disability, Supplemental life	
Critical illness, Whole life	1,079,018
Total	$ 29,327,779

Source: City accounting records

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to:

1. Determine if sufficient steps were taken to ensure open enrollment records are uploaded correctly.

2. Determine if change forms for employee insurance are handled in an effective and efficient manner.

3. Determine if sufficient steps are taken to verify benefit-related invoices, along with the proper approvals and payments.

4. Determine if proper steps are taken to find and track inactive employees to ensure insurance payments are current or coverage cancelled.

5. Determine if amounts charged retirees, active and inactive employees for benefits are properly calculated and cash collections properly handled within *City Collection Policy* guidelines.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit period will cover the operations of the Personnel Department related to collection and payment of insurance related funds from July 1, 2010 to June 30, 2011.

STATEMENT OF METHODOLOGY

We met with employees of the City Personnel Department to obtain an understanding of operations. We obtained records related to payments made to vendors, along with cash collection data, from the City Finance and Personnel Departments to determine if proper procedures were followed for payments and receipts related to employee benefits. We interviewed employees of the Personnel Department to determine if adequate procedures were in place to track compliance with benefit contracts. We also interviewed employees of Information Services to obtain information related to the Oracle Enterpirse Resource Planning (ERP) system installation.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in City financial systems. The City's financial system was previously determined to be reliable and no additional work was necessary.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude:

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.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Personnel Department, they do present risks that can be more effectively controlled.

FINDINGS AND RECOMMENDATIONS

SOFTWARE LIMITATIONS

Benefit payments for employees and retirees constitute a significant expense for the City. City contributions to health and dental insurance, EAP program, long-term disability, City-paid life insurance and the employee clinic are provided at a cost to the City of over $26,000,000 annually.

To-date, there is limited reporting capability from the Human Resources module of the Oracle system, resulting in a great deal of the information used to track benefits being

pulled from vendor reports. Without City produced information to confirm billing data from vendors, the City could be overpaying or underpaying for benefit coverage. Also, employees and retirees could be contributing incorrect amounts for their benefits.

Approximately 20% of the Human Resources module of the ERP suite has been implemented, primarily the portions enabling payroll preparation and associated reporting.   Implementation of the remainder of human resources programming is scheduled for completion within three years (nine years after implementation). Poor reporting capability is a contributor to many issues in benefits processing and management, as well as increased internal control deficiencies. Issues include:

- Open enrollment errors;
- Problems tracking benefits for approximately 900 retirees, and associated payments from them, with manual processes;
- Lack of a means to identify inactive employees to bill them for their benefits, along with lacking the ability to determine the exact number of employees enrolled in a benefit program;
- Problems determining if administrative expenses paid to certain benefits vendors, and based on covered employees and retirees, are correct; and
- Manual systems increase the employee time spent performing benefits-related tasks compared to an automated system.

Recommendation 1

We recommend 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.

Auditee Response - (Personnel)

The Personnel Department agrees with this recommendation.

Auditee Response – (Information Services)

In late 2011 the need for further HR implementation was met with the professional development of an implementation roadmap for completion of the HR suite. This roadmap was presented and accepted at the executive level and is being executed on time and within budget. Three milestones are in line to be completed in mid July and a fourth project is set to begin 7/9. The partially funded roadmap includes the near term implementation of the following:

Calendar Year 2012
- ✓ *Implementation of Oracle Advanced Benefits*
- ✓ *Implementation of Self Service Benefit Enrollment and limited Self Service HR functions*
- ✓ *Implementation of automated benefit interfaces*

- *Implementation of Oracle Advanced Benefits for Retirees (start date 7/9)*
- *Implementation of Employee & Manager Self Service*
- *Implementation of Retro Payroll module*
- *Review of FastFormulas & XML Checks*
- *Enhanced Pension Administration*
- *Enhanced Position Management*

Calendar 2013
- *Implementation of Employee Performance Appraisals*
- *Implementation of additional Oracle functionality related to learning management, time and labor, deferred comp, etc.*

Recommendation 2

In the interim, we recommend the Personnel Department create a spreadsheet that eases the difficulty in determining if benefit payments have been received from retirees. One suggestion would be 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 would be to purchase or develop a database to track amounts due against payments made for retiree insurance, along with associated reporting.

Auditee Response

The Personnel Department agrees with this recommendation and will work to create and use the spreadsheet with the appropriate information.

INADAQUATE INVOICE REVIEW

The City is self-insured for medical costs. Self-insured entities pay a monthly administrative fee to the plan administrator, as well as weekly payments for the actual costs of health and dental claims. The Blue Cross Blue Shield of Tennessee administrative fee is based on the number of employees covered at a certain point each month. The number of covered employees billed for the administrative fee should be reconciled to the corresponding number of members from the City's records. This reconciliation has not been performed since implementation of the Oracle system. Rather, an exception report produced by the vendor has been used. The same problem exists for all benefit types with invoices based on the number of employees covered (e.g. health, stop-loss insurance, long-term disability, EAP).

We also found instances where health and dental invoices were approved for payment with no verification they were correct. *The Internal Control and Compliance Manual for Tennessee Municipalities Title 5, Chapter 19, Section 2 states, in part*: "Payment should never be based on an invoice only. The testing of prices, extension of amounts, and addition of the total invoice should be required".

Prior to release of this report, a new process has been put in place to confirm charges for health and dental administrative billings. Using a process developed by Information Services, a file is received weekly from Blue Cross Blue Shield of Tennessee containing data of covered employees and type coverage. That file is compared to medical and dental information housed in City records. An exception file is produced and any differences reconciled by Benefits personnel.

Recommendation 3

We recommend 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 would be 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.

Auditee Response

With the full implementation of the Oracle OAB system that was completed in June, 2012, the benefits office will be able to obtain the needed information each month to reconcile the invoices.

Recommendation 4

We recommend 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.

Auditee Response

The Personnel Department will verify the billing prior to approval of payment. We will also request the reports from Blue Cross Blue Shield of Tennessee and perform the recommended audits.

DEFICIENCIES HANDLING BENEFIT-RELATED COLLECITONS

Portions of the City and State cash handling policies are not currently followed for benefits related collections. Among issues noted during the audit are:
- Hand delivered checks are not date stamped upon receipt. The date received is noted and stamped on the check during preparation of the collection report. City Finance Collection Policies require checks be date stamped immediately upon receipt.

- Daily check logs are not prepared for checks received in the mail, nor are those checks date stamped for deposit only. *The Internal Control and Compliance Manual for Tennessee Title 5, Chapter 14, Section 4*, states, "The designated employees should immediately open the mail and prepare a list of all money/checks received in the mail. All checks should be stamped "FOR DEPOSIT ONLY."
- Checks received in the mail are passed to a benefits employee with no receipt being prepared at change of possession, as required by *The Internal Control and Compliance Manual for Tennessee Municipalities Title 5, Chapter14, Section 2*.
- Some collection reports were not filed within three business days of receipt, as required by state law and City policy.
- Instances were noted where a check copy or receipt was missing from collection reports, as required by City policy.
- Multiple receipt books were in use concurrently, which does not comply with the intent of T.C.A. 9-2-104.

Recommendation 5

We recommend 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.

Auditee Response

The Personnel Department will review the collection policy with staff and will ensure compliance.

MANUAL TRACKING OF RETIREE INSURANCE

During conversations with staff of the benefits group we found benefit information for the City's over 900 retirees is not housed in the HR system, but tracked manually with spreadsheets, resulting in inefficiencies and errors. Retiree information cannot presently be housed in the Human Resources module of Oracle because only a portion was loaded to enable preparation of payroll, with the remainder scheduled for completion within the next three years.

Recommendation 6

We recommend the Personnel Department work with Information Services to solve outstanding issues related to entering retiree information into the HR system as soon as practicable.

Auditee Response - Personnel

The Personnel Department will begin the process to add retirees to the Oracle Advanced Benefit system in July 2012. The 10 week project will add all retirees into the system and track the insurance of all covered.

Auditee Response – Information Services

In late 2011 the implementation roadmap identified Retiree Benefit Management as a priority near term implementation goal. Funding and resources have been secured to accomplish this project within the next few months. Tasks related to this project will begin being executed on July 9, 2012.

INACTIVE EMPLOYEE IDENTIFICATION

When an employee is off work, but expected to return, employee benefits are kept in place with the City continuing to pay the employer portion. The employee is responsible for paying their portion of benefits payments, even after they have exhausted any accumulated leave.

A standard form exists, but is not used by departmental supervisors to notify the Personnel Department when an employee is temporarily inactivated, or upon their return to work. Currently this type information, for benefits purposes, is derived by leafing through a large report (500-600 pages) for employees lacking enough salary to cover benefit amounts. This process is error prone, as well as an inefficient use of employee time. The lack of current information can result in inactive employees being provided benefits without paying the associated premium.   Also, Benefits employees spend unproductive hours each month searching for this information from payroll registers, insurance company reports and other benefits-related reporting.

Recommendation 7

We recommend 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 recommend 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.

We also recommend, 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 recommend 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.

Auditee Response

A policy is currently in place wherein extended absences are required to be reported on a personnel action form. Currently, the policy is not consistently followed throughout the City. The Personnel Department will enlist the assistance of the Mayor and Administrators to encourage compliance to the policy by all City Departments.

RETIREE DEATH IDENTIFICATION

The current methodology to determine the death of a retiree receiving City benefits is a daily scan of the local obituaries. The Personnel Department receives a quarterly report of deaths from First Tennessee Bank, the General Pension Fund Administrator. This report is not currently used by Benefits Division personnel to help identify those retirees who have passed away.

Recommendation 8

We recommend 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.

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

Auditee Response

The Personnel Department agrees with this recommendation.

RETIREE BENEFIT PAYMENT DUE DATE

Some retirees' pensions are not large enough to cover benefit payments, requiring them to make monthly payments to cover their portion of health/dental benefits. The due date for those payments is the last day of the month (after any monthly benefit has been received). As such, benefit coverage can possibly be provided to retirees who have not made payment.

Recommendation 9

We recommend the Personnel Department consider changing the due date of benefit payments for retirees to the 1st day of the month of coverage.

Auditee Response

The Personnel Department will research and implement this change in a manner that will create the least hardship for those affected. This change will result in our retirees having to pay their premiums twice in one month.

POLICY AND PROCEDURES MANUAL UPDATES

In the course of our audit, we discovered the Personnel Department policy and procedures manual had not been updated in the past ten years.

Recommendation 10

We recommend 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.

Auditee Response

The Personnel Department will work to update the Policy and Procedure manual.