SUBJECT: Follow Up of Audit Report 2007-01 - Human Resources - Benefits Administration (CM08031) (City Wide)

RECOMMENDATION:

That Report CM08031 respecting the follow up of Audit Report 2007-01, Human Resources – Benefit Administration, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 207-01, Human Resources – Benefit Administration was originally issued in May, 2007 and management action plans with implementation timelines were included in the report. In October, 2008, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken.

Regarding the implementation of the six (6) recommendations made in the original main report and four (4) recommendations in the Addendum, seven (7) have been fully completed, temporary alternatives have been implemented for two (2) and one (1) is in progress. Considering the major reorganization in Human Resources over the last several months with many positions unfilled or changing in responsibilities, the division has made admirable progress in the implementation of the recommendations.
BACKGROUND:

Audit Report 2007-01, Human Resources – Benefits Administration was originally issued in May, 2007. The report indicated ten (10) recommendations, in total, to improve the controls over the accuracy and completeness of data as well as strengthen the administration of benefits.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report to determine action plans committed to by the departmental management have been implemented. In October, 2008, Internal Audit followed up the report to confirm appropriate and timely actions have been taken.

ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM08031 contains the first three columns as originally reported in Audit Report 2007-01 along with an added fourth column indicating Internal Audit’s follow up comments. Four items in the Addendum have also been followed up with appropriate detail.

The seven (7) fully implemented recommendations include: written procedures for follow up of exception reports; added controls for the processing of third party benefit invoices (includes recalculating expenses, taking into consideration the prior month’s payments); comparing and balancing internal and external data; and timely transfer from and regular review of reserve accounts.

Due to a position, unfilled at the time of Internal Audit’s follow up, two (2) of the previously made recommendations could not be implemented as originally indicated. Instead, an acceptable temporary alternative was implemented. The division also indicated that once the position is filled, the management action plan as noted in the report would be implemented.

The one (1) item noted as in progress in the Addendum is the review of the benefits adjudication functions performed by an external carrier. An external consultant has recently completed a review of the long-term disability (LTD) arrangement but budgetary pressures have delayed the review of the Extended Health and Dental Benefits (EHDB) agreement.

ALTERNATIVES FOR CONSIDERATION:

N/A

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
Once funding is made available, a review of the EHDB arrangement will be carried out.

Staffing
Once the Benefits Financial Specialist (BFS) position is appointed, management action plans as indicated in recommendations 1 & 2 of the report can be put in practice.

Legal
None.
POLICIES AFFECTING PROPOSAL:

None.

RELEVANT CONSULTATION:

The recommendations, management action plans and their implementation status were discussed with the appropriate staff. The results of the follow up were provided to staff and management.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced. □ Yes ☑ No
- Environmental Well-Being is enhanced. □ Yes ☑ No
- Economic Well-Being is enhanced. ☑ Yes □ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

- Does the option you are recommending create value across all three bottom lines? □ Yes ☑ No
- Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes □ No

The efficient and effective administration of benefits provided to the City’s employees positively affects the hiring and retention of City staff.

ap:dt
Attachment – Appendix “A’
## Life Insurance & AD&D Premium Calculation

Premiums for Life Insurance and Accidental Death & Dismemberment (AD&D) are paid to the insurance carriers on a monthly basis. The amounts paid are calculated by the Benefits Financial Specialist (BFS) manually in spreadsheets using the data of the monthly reports from PeopleSoft.

It was noted during the audit that when cheque requisitions for Life Insurance & AD&D were prepared by the BFS and forwarded to the Benefits Co-ordinator (BC) for approval, only the calculation spreadsheets were attached. There was no evidence of a supervisory review of the spreadsheets or the supporting reports from PeopleSoft.

As a consequence, there is a risk that the calculations may not have been done correctly, resulting in incorrect premiums paid.

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<td>1</td>
<td>Life Insurance &amp; AD&amp;D Premium Calculation</td>
<td>That the calculation spreadsheets and the supporting reports from PeopleSoft be reviewed by the BC to ensure completeness and accuracy. Evidence of review should be noted on the spreadsheets and the reports.</td>
<td>Agreed. As of February 2007, spreadsheets and the supporting reports will be attached to the cheque requisition. Evidence of review by the Benefits Co-ordinator will be noted on the spreadsheets and the reports.</td>
<td>Temporary alternative implemented. In the absence of a BFS due to an unfilled vacancy, the BC prepares the spreadsheets and initials the supporting reports from PeopleSoft. However, the spreadsheets are forwarded to management with the cheque requisitions and are initialed or marked as evidence of review. When the BFS position is filled, the spreadsheet calculations will be prepared by the BFS and reviewed by the BC, as recommended.</td>
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# OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (October 2008)
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2. **Benefit Exception Reports**
Each month the BFS prints out two benefit exception reports from PeopleSoft, namely "Dollars not Deducted" and "Dollars in Error". These reports indicate those employees whose benefit expenses were not deducted from their departments or whose deducted benefit expenses were different from the amounts calculated by the rates defaulted in PeopleSoft during the current pay period. All instances are reviewed by the BFS. Some exceptions may be warranted so no adjustments are made. For the remaining exceptions, the BFS makes adjustments in the form of adjusting journal entries in PeopleSoft, as needed.
At the time of the audit, there was no evidence of a supervisory review of the exception reports. Further, the journal entries initiated by the BFS automatically flowed in PeopleSoft to the Manager of Payroll & Pensions, who approved them electronically without having any supporting reports.
Without a supervisory review of the exception reports and the supporting documentation for the journal entries, there is risk that the follow up of the exceptions and resulting adjustments may be incomplete or inaccurate.
That the exception reports be reviewed by the BC after the adjustments are completed by the BFS but before the adjusting journal entries are approved. Evidence of follow up by the BFS and evidence of BC review should be noted on the reports.
Agreed. The Manager of Payroll and Pensions will continue to approve journals until the Benefits Co-ordinator returns from her current absence which is expected in June 2007. A hard copy of the journal and exception reports will be provided to the Manager so that she will have the supporting reports when approving journals.
Upon her return to work, the Benefits Co-ordinator will attend training for the PeopleSoft electronic approval process. Evidence of review by the Benefits Co-ordinator will be noted on the exception reports prior to approving adjusting journals.
The Benefits Financial Specialist will provide evidence of follow up on the exception reports effective February 2007.
Temporary alternative implemented. Due to the major reorganization of Human Resources and staffing issues, the BFS position is vacant. The BC completes adjustments and the Manager of Payroll and Pensions continues to approve the journals. Once is BFS position is filled, the individual will complete the adjustments and forward them to the BC for approval.
### OBSERVATIONS OF EXISTING SYSTEM

3. **Written Procedures**

   It was noted during the audit that the process of benefit exception reports follow up is quite complicated and requires much experience in this area. Currently, there are no written procedures in place regarding this process.

   When there are no written procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience. Should the employee leave the position, it becomes problematic for the successor to commence his/her duties within a short period of time. Written procedures can also be used as training tools.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

   That the procedures with regard to the follow up of the exception reports be documented in detail. In the future, the procedures should be reviewed at least annually to ensure they are up-to-date.

### MANAGEMENT ACTION PLAN

   Agreed. Procedures will be written to document the steps required to analyze the benefit exception report. This will be done during the 3rd quarter of 2007. Once in place, the procedures will be reviewed annually to ensure that they are up-to-date.

### FOLLOW UP (October 2008)

   Completed. Written procedures were drafted and went into effect on July 1, 2007. They were last reviewed on September 30, 2008 with a planned next review date of September 2009.
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<td>4.</td>
<td><strong>Benefit Invoices</strong></td>
<td>That “the deposit received” on the insurer’s LTD invoices be noted before the cheque for current month is processed to ensure that the payment made in prior month has been taken into account properly. Evidence of review and follow up should be indicated on the invoices.</td>
<td>Agreed. As of February 2007, the “deposit received” check will be done and evidence of review will be indicated on the invoices.</td>
<td>Completed. LTD invoices for January to August 2008 were reviewed and there was evidence of review of the deposit received in all but one instance (Jan ’08).</td>
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| | The City holds an Administrative Services Only (ASO) agreement with an outside insurer for both Extended Health & Dental Benefits (EHDB) and Long Term Disability (LTD) coverage. Each month, the BFS receives an invoice for each of the EHDB and LTD coverages and processes the payments according to the invoiced amounts. If the City’s payment for LTD is not received by the insurer before the invoice of the following month is issued, that month’s balance rolls into the following month’s billing amount and “the deposit received” (i.e. payment from prior month) on the invoice will show as zero.  
It was noted during the audit that “the deposit received” on these LTD invoices is not checked against the payment made in prior month before the cheque for current month is processed. Hence, there is a risk of double-payments. This can contribute to confusion for account reconciliation and analysis.  
Further, there is no evidence of review of the expenses (i.e. claims administration fee, pooling charges, profit charge) charged by the insurer on the EHDB and LTD invoices. Consequently, the City could experience financial losses if errors occur and are not identified. | That the expenses charged on the EHDB and LTD invoices be recalculated to ensure their accuracy. At the very least, a reasonableness check should be conducted. Evidence of the performance of this exercise should be indicated on the invoices. | Agreed. Effective February 2007, a reasonableness check on expenses will be conducted. Evidence of review will be indicated on the invoices. | Completed. A check for reasonableness is performed monthly. These calculations were on file for all months sampled (January to August 2008) and were initialed by the Benefits Co-ordinator. No significant variances were noted. |
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<td>5.</td>
<td><strong>Balancing between PeopleSoft &amp; Insurer’s Data</strong> The Benefits Assistant (BA(HR)) is responsible for setting up and updating the EHDB for eligible employees/retirees in both PeopleSoft and the insurer’s systems. To ensure that the number of employees/retirees enrolled in each benefit plan under the EHDB agrees in both systems, the statements received from the insurer are to be balanced to a report generated from PeopleSoft on a monthly basis using a balancing spreadsheet. During the review, it was noted that the balancing procedures for several months in 2006 were not completed. A few formula miscalculations and errors were also noted in the randomly selected sample of balancing spreadsheets. Further, there is no evidence of a supervisory review of the balancing spreadsheets or self-checking by the BA(HR) after the spreadsheets are completed. When the balancing between PeopleSoft and the insurer’s records is not completed monthly, any errors would not be identified on a timely basis. Without a supervisory review or self-checking, there is a risk that the monthly balancing spreadsheets may not have been done correctly. As a result, the effectiveness of the monthly balancing may be compromised.</td>
<td>That the balancing between PeopleSoft and the insurer’s data be performed on a monthly basis by the BA (HR) and reviewed by the BC to ensure completeness and accuracy. Evidence of review should be noted on the balancing spreadsheets.</td>
<td>Agreed. Effective February 2007, the spreadsheet will be debugged, improved and the formulas will be protected. Effective March 2007, the Benefits Assistant will self check the balancing work. Evidence of review will be noted on the balancing spreadsheet. The balancing will be performed monthly and the spreadsheets and PeopleSoft reports will be stored in monthly files. Effective June 2007, reviews will be done by the Benefits Co-ordinator to ensure that accuracy of balancing is being done and evidence of review will be noted on the spreadsheet.</td>
<td>Completed. The balancing between PeopleSoft and the insurer’s data is performed monthly by the Benefits Assistants using the ‘Balancing Summary Spreadsheet’ and checked by the Benefits Co-ordinator. There was evidence of a balancing routine on file for all months sampled (January to August 2008).</td>
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ADDENDUM

The following items were noted during the course of the audit. They may not present internal control deficiencies or they may be a result of limited staff resources. They are indicated in this Addendum so management is aware of the errors/issues and can address them, as necessary.

1. Part or all of the operating budgets for HR Benefits & Wellness, Labour Relations and Return to Work are funded by the benefits reserves. Transfers from these reserves to the operating accounts are by way of manual journal entries made by the Administrative Co-ordinator for HR, who has indicated that the transfers are expected to be done on a monthly basis. It was noted during the audit that in 2006 no such transfers were done until August. When the transfers are not done monthly, deviations from the budget result. As well, the periodic financial information from the related accounts could be misleading.

It is recommended:
That transfers from the benefit reserves to the operating accounts to fund the budgets for HR Benefits and Wellness, Labour Relations and Return to Work be performed on a monthly basis.

Management Response:
The Manager of Finance & Administration and the Administrative Co-ordinator in Finance, who performs the transactions on behalf of the Human Resources Department, were advised of this recommendation on February 21, 2007 and have agreed to do monthly transfers.

Follow Up Comment:
Completed. Transfers from the reserve to the operating account are occurring on a monthly basis.

2. Currently, the insurer’s statements and a PeopleSoft report are used to balance the EHDB enrollment in both systems. As a result of the different cut-off methodology used by the statements and the report, there are always a number of reconciling items which make the current balancing process time consuming. Discussions have revealed that the BA(HR) also receives a CD from the insurer each month which provides similar enrollment information using the same cut-off methodology as the report from PeopleSoft. Using the CD for the balancing routine would reduce the number of reconciling items and make the process more efficient.

It is recommended:
That the CD from the insurer be considered for replacing the insurer’s statements in the balancing process for EHDB enrollment.

Management Response:
Effective February 2007, Manulife was requested to make changes to the CD in order to assist with the balancing process. Effective March 2007, the CD method will be utilized to test whether the CD method is a more efficient method to incorporate into the balancing routine.

Follow Up Comment:
Completed. The CD from the insurer is sent by the 15th of the month and a sampling of the reconciliation and balancing process for EHDB enrollment showed that the data from the CD is being used effectively. CDs are retained on file, by month, with other documents required for monthly balancing.
3. Since the City is holding an ASO agreement with its insurance carrier for both EHDB and LTD, both plans are 100% self-funded with a pay-as-you-go feature. The insurer is responsible for assessing each claim received. Each month, the insurer bills the City for total claims paid in the current month plus expenses. The City reimburses the insurer for eligible amounts in accordance with the agreement between the carrier and the City. Therefore, it is important to ensure that the amounts invoiced truly represent the actual claims processed and the expenses are calculated correctly using the preset rates.

*It is recommended:*
*That a review of the benefits adjudication functions performed by the carrier pertaining to the EHDB and LTD be conducted during each five-year term of the agreement.*

*Management Response:*
*This review has always been done during the five-year term and this practice will continue.*

*Follow Up Comment:*
*In progress. An external consultant was contracted to conduct the audit of LTD. The fieldwork has been completed and a report is anticipated by the end of October 2008. The next review of LTD is planned for January 2012 which corresponds with the mid point of the next five year term. Due to budgetary pressures, the review of EHDB has been delayed and will be revisited as funding becomes available.*

4. During the audit, it was noted that a number of journal entries was posted to the LTD reserve in 2006 to fund various payments legally required for employees terminated from LTD status. Discussions with the BC indicated that these transactions should have been posted against the LTD Liability Account rather than the LTD Reserve account (expenditures from any reserve or reserve fund require Council approval directly or through the budget process). All such entries were corrected subsequent to the audit observation.

*It is recommended:*
*That the BC review the transactions of the benefit reserve accounts on a quarterly basis to ensure that only authorized withdrawals are made from these accounts. In addition, any charges to the benefit liability accounts (which are reconciled by this section) should be communicated to the BC at the time they are made.*

*Management Response:*
*The Benefit Co-ordinator will review the Benefit Reserve Accounts on a quarterly basis. Due to the Benefit Co-ordinator’s absence, this will be delayed until June 2007. Effective February 2007, the Benefit Co-ordinator has requested that Finance notify and forward to her the details of any transactions they are processing against the Benefit Liability accounts.*

*Follow Up Comment:*
*Completed. The Benefits Co-ordinator performs a regular review of activity in the reserve accounts and retains print outs of entries in a file with appropriate documentation.*