

Summit County Executive Office
Human Resource Department – Division of Employee Benefits
Preliminary Audit Report

Prepared for:

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Audit Committee

Approved by Audit Committee
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EXECUTIVE SUMMARY

Total Number of Issues – 10

Policies and Procedures

Section	# Issues	Issue Descriptions	Page Ref.
Policies and Procedures Manual	2	<ul style="list-style-type: none"> • Employees not acknowledging receipt of policies and procedures. • Insufficient policies and procedures. 	6

Internal Controls

Strong Internal Controls:

Testing Section	# Issues	Issue Description	Page Ref.
Asset Inventory	0	No issues noted.	9
Payroll			10
Fringe Benefits			10
Personnel Files			10
Regulatory Compliance			10
Employee Wellness			11

Weaknesses in Internal Controls:

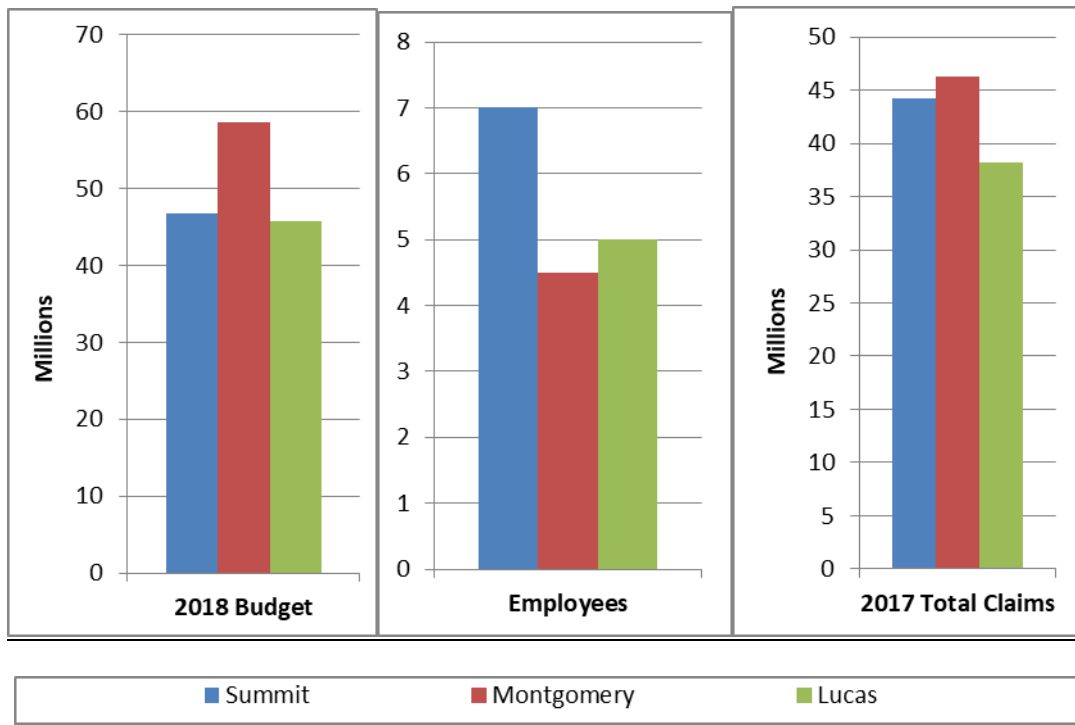
Testing Section	# Issues	Issue Descriptions	Page Ref.
Accounts Receivable	2	<ul style="list-style-type: none"> • Untimely deposits in accordance with ORC §9.38. • Untimely receipts of unpaid medical premiums from employees on unpaid leave and incorrect premiums recovered. 	7
Purchasing & Expenditures	2	<ul style="list-style-type: none"> • Funds were not properly encumbered prior to incurring the expense. • Packing slips not initialed in accordance with policies and procedures. 	8
Employee Deductions	4	<ul style="list-style-type: none"> • Instances where birth certificates were not obtained for dependents covered by domestic partners and no policies and procedures regarding timeliness of receipt. • Instances where proof of medical coverage was not obtained from employees waiving medical coverage that received a waiver benefit. • An instance where incorrect supplemental life insurance deductions occurred. • An instance where a terminated employee submitted medical claims after separation of employment and no policies and procedure regarding the recovering of ineligible claims. 	11

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GENERAL BACKGROUND

The Human Resource Department – Division of Employee Benefits (Division of Employee Benefits), under the direction and jurisdiction of the Summit County Executive, is responsible for administering the County’s self-insured employee health plan, workers compensation programs, insurance procurement, claims handling and wellness programs and events. It represents \$46,771,300 (8.8%) of the County’s \$529,156,964 operating budget for 2018,¹ and consists of seven (7) full time employees.

IAD compared the Division of Employee Benefits 2018 operating budget, current staffing levels and total amount of claims in 2017 to Montgomery and Lucas, comparably populated counties. The comparisons are represented in the graphs below:



AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide the Division of Employee Benefits with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Division of Employee Benefits.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable

¹ <https://co.summitoh.net/images/stories/Finance/pdf/OperatingBudget/2018OperatingBudget.pdf>

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basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Objectives:

- To obtain and review the current policies and procedures.
- To review the internal control structure through employee interviews and observations.
- To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the Division of Employee Benefits from January 1, 2018 through December 31, 2018.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

6. Meet with the appropriate personnel to obtain an understanding of the control environment.
7. Document the existing control procedures in narratives and/or flowcharts.
8. Compare existing processes to the policies and procedures manual for consistency.
9. Test procedures for compliance where applicable, noting all exceptions.
10. Investigate discrepancies and summarize results.
11. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY (covered in a separate report in compliance with ORC §149.433).

1. Perform a general overview of the physical environment and security of the department/agency being audited.
2. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
3. Test security issues where appropriate.
4. Analyze current policies and make recommendations.

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DETAILED COMMENTS

Interviews:

To gain an understanding of the Division of Employee Benefits, the Internal Audit Department (IAD) performed interviews with the following positions:

- Deputy Director of Employee Benefits
- Senior Administrator
- Director of Administration
- Executive Assistant
- Benefits Administrator (2)
- Employee Wellness Coordinator

Any issues noted are addressed in the respective sections of this report.

I. Policy and Procedures Review:

The Division of Employee Benefits policies and procedures were reviewed for each of the following applicable testing sections within the audit for accuracy and completeness and compared to current processes for consistency. The Division of Employee Benefits Records Retention Schedule was also reviewed for completeness and compared to processes throughout the audit to ensure that the schedule contained all relevant documents.

The following issues were noted:

1. Issue:

Upon discussion with the Division of Employee Benefits personnel, IAD noted employees are not required to acknowledge receipt and review of Division of Employee Benefits policies and procedures.

Recommendation:

IAD recommends that the Division of Employee Benefits require employees to sign-off, acknowledging their receipt and review of policies and procedures. This will help to ensure compliance with the policy and procedure manual and best practices.

Management Action Plan:

All Employee Benefits staff will complete HR Acknowledgement forms after reading new department policies and procedures which have been formalized as set forth in Issue 2.

Target Date: 8/31/19

2. Issue:

Upon review of the Division of Employee Benefits Policy and Procedure Manual, IAD noted the following:

- The manual has not been formally approved by management,
- The manual does not include effective dates or dates of revision,
- The manual includes names of employees instead of titles,
- The manual has not been formalized.

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Recommendation:

IAD recommends that policies and procedures be updated/reviewed and approved by management on a routine basis. This will help ensure that approved policies and procedures are accurate and consistently followed by employees.

Management Action Plan:

Complete an updated formal policy and procedure manual for the Employee Benefits Division that covers all areas mentioned in the audit that includes formal approval by management, includes effective dates and revision dates and updates from names to titles of employees.

Target Date: 8/31/19

II. Internal Control Testing:

Risk-based internal control testing and/or observations were performed in the following areas:

- Accounts Receivable
- Purchasing & Expenditures
- Asset Inventory
- Payroll
- Fringe Benefits
- Personnel Files
- Regulatory Compliance
- Employee Wellness
- Employee Deductions

ACCOUNTS RECEIVABLE

The Division of Employee Benefits policies and procedures were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the accounts receivable cycle, and internal controls in place.

A sample of daily deposits was haphazardly selected for detail testing to ensure proper segregation of duties and timeliness and accuracy of the deposit. A listing of regional entities that utilize the County's medical plan and employee assistance program (EAP) were obtained and rates were reconciled to the respective contracts and invoices for accuracy. Additionally, EAP participation agreements were reviewed for completeness. Employees on unpaid leave were reviewed to determine that unpaid premiums for insurance benefits were received timely and that the correct unpaid insurance premiums were recovered.

The following issues were noted:

3. Issue:

Upon detail testing of receipts, IAD noted six (6) of twenty-four (24), or 25%, instances where funds were not timely deposited in accordance with ORC §9.38.

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Recommendation:

IAD recommends that all funds received be deposited by the next business day or reference County Codified Ordinance §195.03 which allows up to three (3) days for deposits less than \$1,000 as long as a policy has been created for safeguarding funds until such time as they are deposited. This will help to ensure compliance with ORC §9.38.

Management Action Plan:

Create a procedure for safeguarding funds in a secure location until such time as checks can be deposited and to allow up to three (3) days for deposits less than \$1000.

Target Date: 8/31/19

4. Issue:

Upon detail testing of employee insurance premium payments when an employee is on an unpaid payroll status, IAD noted fifty-six (56) out of seventy-three (73) instances, or 77%, where the employee portion of the insurance premium was not received timely (within 30 days), in accordance with County Codified §169.15. Additionally, IAD noted four (4) out of twenty (20) instances, or 20%, where the correct employee portion of deductions was not recovered (e.g., medical, dental, vision, supplemental life insurance, etc.).

Recommendation:

IAD recommends the employee portion of the insurance premiums be collected within thirty (30) days of non-payment and ensure that all past due balances are paid in full. This will help to ensure compliance with County Codified §169.15 and proper payments are received for the employee's portion of insurance premiums.

Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Department, we will work with HR Legal to create a policy for employees on unpaid leave of absence that addresses time frames employees need to pay insurance premiums while on leave and that provides for notice to the employee of the consequences of failing to pay and that clearly establishes when an employee will be removed for non-payment.

Target Date: 8/31/19

PURCHASING & EXPENDITURES

The Division of Employee Benefits policies and procedures were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the purchasing process. A sample of purchase order requisitions and purchase orders was judgmentally selected and detail testing was performed to test for proper documentation and approvals. A sample of expenditures was haphazardly selected and detail expenditure testing was performed to verify that funds do not remain encumbered for prior year purchase orders, confirm proper approval, proper authorizations, funds were encumbered prior to incurring the expense, the transaction appeared free from conflict of interest, and the appropriate vendor and amount were paid.

Additionally, a sample of merchandise purchases was haphazardly selected and detail testing was performed to ensure a supply order form was completed, approved and a packing slip was initialed in accordance with policies and procedures.

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The following issues were noted:

5. Issue:

Upon detail testing of Banner expenditures, IAD noted nine (9) out of thirty-four (34) instances, or 26%, where the invoice date was prior to the purchase order date.

Per ORC §5705.41, no order involving the expenditure of money shall be made without a certificate of the Fiscal Office (purchase order).

Recommendation

IAD recommends that funds be encumbered prior to incurring the expense/liability. This will help to ensure proper expenditure of funds and compliance with ORC §5705.41.

Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Department, to be in compliance with ORC 5705.41, a procedure will be established to ensure that funds are encumbered prior to incurring an expense/liability.

Target Date: 8/31/19

6. Issue:

Upon detail testing of packing slips, IAD noted four (4) out of eight (8), or 50%, instances where the packing slip was not initialed in accordance with the Department's policies and procedures.

Recommendation

IAD recommends that packing slips received with supply orders are initialed in accordance with the Department's policies and procedures. In the instance a packing slip is not included, IAD recommends that an email is sent to the purchasing agent documenting the receipt of the order.

Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Division, the duties of ordering materials and receipting them in will be performed by separate positions. The policy will include a requirement that the person performing the receiving procedure will initial the packing slip of each order to ensure all items were received. If there is no packing slip that person will send an email to his/her supervisor indicating all items ordered were received. The title of each individual involved in these processes will be noted in the procedure

Target Date: 8/31/19

ASSET INVENTORY

Policies and procedures were reviewed to gain an understanding of the asset and IT inventory processes and internal controls in place. IAD verified that the Division of Employee Benefits assets are tracked and maintained by the Executive Office.

No issues were noted.

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PAYROLL

An interview was conducted to gain an understanding of the payroll process. A sample of overtime and compensatory time forms was selected and detail testing was performed to ensure the overtime and compensatory time agrees with the hours inputted into Kronos and the form was signed by a supervisor. A payroll approval report was generated and reviewed to determine appropriate authorizations and to confirm a proper segregation of duties.

No issue were noted.

FRINGE BENEFITS

Detail testing of the following areas was performed, if applicable, to confirm the Division of Employee Benefits is properly processing fringe benefits in accordance with IRS tax code:

- Travel and meals reimbursement
- Cash incentives, awards, gift awards and/or bonuses
- County paid life insurance policies over \$50,000
- Uniforms and clothing allowances
- Employment contracts
- Agency vehicle usage
- Allowances for firearms or tasers and/or any other non-lethal weapon
- Tuition assistance and reimbursement
- Subcontracted employees
- Domestic partnership health insurance

No issues were noted.

PERSONNEL FILES

The Division of Employee Benefits policies and procedures were reviewed and an interview was conducted to gain an understanding of the personnel file process. Employee job descriptions were obtained and reviewed for positions that require professional licensures or certifications and detail testing was performed to ensure the professional licensures or certifications were obtained, where applicable.

Additionally, a sample of classified employees was haphazardly selected and detail testing was performed to ensure an annual performance evaluation was performed, in accordance with Summit County Codified Ordinance §169.17.

No issues were noted.

REGULATORY COMPLIANCE

Ohio Revised Code (ORC) §9.833 was reviewed, attributes were developed and detail testing was performed to ensure that a financial statement and written report of reserved and aggregated disbursements are compiled by a member of the American Academy of Actuaries within ninety (90) days after the last fiscal year and that the report was submitted to the Auditor of the State.

No issues were noted.

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EMPLOYEE WELLNESS

An interview was conducted to gain an understanding of the employee wellness process. A listing of wellness events were obtained and detail testing was performed to reconcile the employees that received credit for attending the wellness event to the attendance sheets.

No issues were noted.

EMPLOYEE DEDUCTIONS

The Division of Employee Benefits policies and procedures were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the employee deductions process. A listing of all health, dental, vision and supplemental insurance deductions were obtained and detail testing was performed to ensure the correct payroll deduction occurred for each employee based on the applicable insurance coverage selection.

A sample of employees that waived the County's medical coverage was haphazardly selected and detail testing was performed to ensure that supporting documentation was obtained to document the eligibility of the monthly waiver benefit.

A sample of employees with dependents covered on their medical plan was haphazardly selected and detail testing was performed to ensure that proper supporting documentation was obtained (e.g., marriage certificate, birth certificates, etc.).

All domestic partner medical plan selections was selected and detail testing was performed to ensure that proper supporting documentation was obtained (e.g., marriage, birth certificates, domestic partner affidavits, etc.)

A sample of employees who had a qualifying event was haphazardly selected and detail testing was performed to ensure that status change forms were completed and that supporting documentation was obtained, if applicable.

A listing of dependents over the age of 26 was obtained and detail testing was performed to determine reasonableness of continuing coverage.

The following issues were noted:

7. Issue:

Upon detail testing of domestic partner eligibility testing, IAD noted two (2) out of forty-seven (47), or 4%, instances where a birth certificate was not obtained, in accordance with domestic partner affidavit. Additionally, upon review of the Division of Employee Benefits policies and procedures, IAD noted no policies and procedures regarding determining the timeliness of obtaining marriage/birth certificates for new dependents.

Recommendation

IAD recommends the Division of Employee Benefits obtain birth certificates for all dependents. Additionally, IAD recommends a policy be created, approved and disseminated regarding determining the timeliness of obtaining marriage/birth certificates for new dependents. This will help to ensure only eligible dependents are receiving health care coverage and that the proper policies are in place and consistently followed within the department.

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Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Department, a policy will be established that sets out the required time within which marriage licenses/birth certificates (or other appropriate forms of proof) must be received for all dependents. The policy will clearly establish the consequences for failure to provide timely documentation. A procedure will be established to notify employees of their failure to provide documentation and the consequence for not providing the documentation on a timely basis (i.e., the dependent will be removed from the plan).

Target Date: 7/15/19

8. Issue:

Upon detail testing of employees that waived the County's medical coverage, IAD noted four (4) out of nineteen (19) instances, or 21%, where proof of medical coverage was not obtained in accordance with County Codified §169.15.

Recommendation

IAD recommends that proof of medical coverage be obtained annually for all County employees that waive medical coverage. This will help to ensure compliance with County Codified §169.15

Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Department, a procedure will be established for ensuring that employees who waive coverage provide proof of other medical coverage annually.

Target Date: 7/15/19

9. Issue:

Upon detail testing of supplemental life insurance premium deductions, IAD noted one (1) out of fifteen (15) instances, or 7%, where the incorrect life insurance premium was deducted from the employee, resulting in a \$789.84 underpayment for the selected life insurance coverage in 2018.

Recommendation

IAD recommends a reconciliation of all insurance coverages be performed after enrollment is completed and all exceptions be investigated. This will help to ensure the correct premiums are collected from County employees.

Management Action Plan:

The Employee Benefits Division will complete a reconciliation of all supplemental life insurance premium deductions in addition to the current reconciliation we are currently processing for all other lines of business.

Target Date: 7/15/19

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10. Issue:

Upon detail testing of terminated employees, IAD noted one (1) out of forty-four (44) instances, or 2%, where a prior employee was terminated from COBRA coverage; however, claims were paid after the termination date. Additionally upon review of the Division of Employee Benefits policies and procedures, IAD noted no policy and procedure over this process.

Recommendation

IAD recommends the Division of Employee Benefits review claims to ensure the employee/prior employee had medical coverage prior to paying the claim. This will help to ensure the County only pays for covered claims and proper policies are in place and consistently followed within the department.

Management Action Plan:

In completing procedures for the functional areas of the Employee Benefits Department, a procedure will be established to review claims of terminated employees to determine how repayment of claims will be processed.

Target Date: 7/15/19

II. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with ORC §149.433.