

Interim Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

**Cuyahoga County Human Resources
Benefits Department Review and Follow Up
January 1, 2019 – April 15, 2019**

Interim Director of Internal Auditing: Rose Karam, CFE, CIA

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**CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING**

**INTERNAL AUDIT REPORT
Cuyahoga County Benefits Review and Follow Up
Cover Letter**

December 11, 2019

To: County Executive, Armond Budish; Chief Talent Officer, Douglas Dykes; and Director of Human Resources Benefits and Compensation, Holly Woods:

Introduction

In 2019, the Director of Human Resources (HR) Benefits and Compensation requested the Department of Internal Auditing's (DIA) services to review eligibility and payroll withholdings from the County's open enrollment (OE) process. DIA compared its results to a similar review conducted in 2018.

This review was performed as a consulting engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA). We were not engaged to and did not conduct an audit examination. The IIA standards define consulting engagements as advisory and related management services/activities, the nature and scope of which are agreed with and/or requested by management and is intended to add value and improve the County's governance, risk management, and control processes without the internal auditor assuming management responsibility. This review was also performed as a consulting engagement under DIA's charter and does not constitute an audit in accordance with *Generally Accepted Government Auditing Standards*.

Objectives, Procedures and Scope of Work

The Director of HR Benefits and Compensation requested DIA's services in March 2019. The procedures and objectives for this engagement were limited to:

- 1) Recalculation and reconciliation of employee withholdings to actual withholdings for the first six pay periods of 2019. Specifically, DIA attempted to ensure the accuracy of elections for vision, medical, dental, flexible spending account (FSA), and life insurance.
- 2) Ensure terminated employees did not have active benefits by comparing the medical, dental, vision, FSA, and pharmacy eligibility files to County employee master records.

To perform the review, DIA used a variety of reports and OE related files provided by the Benefits Department (Benefits) in HR and the Department of Information Technology (DoIT). DIA also obtained data directly from SAP employee master records and payroll registers. The following is a list of the reports and files used by DIA and their sources:

- **OE Files** –Open Enrollment (OE) Final Confirmation Report files for plan year 2019. These files contained employee selections for all benefit plans (i.e. dental, vision, life insurance, medical and FSA) for the 2019 plan year.
- **Provider Eligibility Files** – Eligibility files from the benefits providers supplied by DoIT.
- **SAP** – County information system utilized by Benefits to track and store benefits and payroll data. SAP files include County master employee records, Zjournal (journal listing all employee benefit deductions) and life insurance premium report.
- **Rate Table** – 2019 approved benefit and allowance rates received from Benefits.
- **Payroll and Deduction Registers** – Bi-weekly pay registers with actual employee deductions, allowances paid and pay rates.

Background

Benefits determines monthly premium rates for each insurance plan (medical, dental, etc.). Plan expenses such as administrative costs factor into premium rates, in addition to plan premiums. Employees are responsible for a percentage (14% for most plans) of the total premiums through payroll deductions, while the County contributes the remaining 86%. Premium rates are communicated to County employees during OE. The 2019 OE occurred between October 22, 2018 and November 5, 2018. During this time, County employees selected or opted-out of insurance plans offered by the County for the 2019 plan year. Plans selected during OE were effective January 1, 2019 through December 31, 2019 unless a qualifying event occurred for an employee. Qualifying events include marriage, divorce, birth or adoption of a child, or loss of coverage through a spouse.

Following OE, plan elections were imported into SAP. Bi-weekly payroll deductions and County contributions derive from open enrollment results. Plan types and deduction amounts were updated and tracked in SAP. Benefits offered employees an OE corrections period from January 24 through January 30, 2019, during which any changes that affected their premiums were applied to their payroll deductions and SAP, effective February 1, 2019.

During the plan year, Benefits is responsible for verifying eligibility for all County plan members. Monthly, DoIT distributes an eligibility file to each provider. When employees are terminated or otherwise cease to be eligible, providers deactivate ineligible employees from receiving County benefits.

Summary of Results

Results from the review are presented on the following pages. Although DIA provided the following results to Benefits between July and November 2019, as of the report release date, Benefits was still in the process of reviewing and addressing the remaining results. This is partially due to implementation of the County's enterprise resource planning system and facilitating the County's 2020 open enrollment (OE) process. DIA will update our results and notify the appropriate parties of any significant changes to the findings noted below, if necessary.

1) ACCURACY OF EMPLOYEE WITHHOLDINGS AND ALLOWANCES

DIA performed a review and analysis of employee (EE) withholdings to ensure open enrollment selections were accurately reflected in employee paychecks, based on the plans selected, as of pay period (PP) ending March 18, 2019 (PP6).

DIA recalculated expected deductions and allowances through PP6 to compare to total actual deductions and allowances. PP6 was the most recent pay period with a pay register available at the commencement of this engagement. This pay period was also similar to the timeframe selected in DIA’s prior year engagement. After comparing the recalculated amounts to actual pay register deductions and allowances, only 10 out of 6,673 County employees tested (<0.1%), in the OE Files were not accurately reconciled to the Deduction Registers at PP6 for a net total of \$848 being owed to the County. Actual employee deductions and allowances were less than the recalculated employee deductions and allowances based on open enrollment plan selections. Results are noted in the following table:

Description of Results	Not Enough Withheld		Too Much Withheld	
	Employees	\$	Employees	\$
Enrolled in Medical and/or Dental Benefits but No Withholdings	2	(\$425)		
Coverage Type Rates Disagree for Medical and Dental (Elected Family, Withheld for Single)	1	(\$211)		
Elected Flexible Spending Account (FSA) but No Withholdings	1	(\$179)		
Supplemental Life Rates Disagree*	4	(\$835)		
Supplemental Life Election Not Yet Approved but Had Withholdings			2	\$802
Totals	8	\$(1,650)	2	\$802

**Supplemental Life Rates entered in SAP agreed with election rates. However, the actual payroll withholdings in the pay register disagreed with SAP. DIA confirmed that Benefits had identified the discrepancies for three of the four employees during its reconciliation of supplemental life rates in late May and made retroactive corrections by collecting the underpayments in PP11 through PP14.*

DIA noted there were fewer findings in the review of employee withholdings compared to last year’s review, which was limited to specific employee groups. The decrease in findings affirmed Benefits management’s response in last year’s report that implementation of the County’s enterprise resource system for 2019 OE would reduce or prevent these issues from reoccurring. A comparison of reviews is noted in the following table:

Description of Results	Employee Group Tested	Employees with Withholdings Errors	Total Employees Tested	Error Rate by Employees Tested
2018	<ul style="list-style-type: none"> • Waiving Vision • Medical Allowances • Electing FSA • Electing Life Insurance 	351*	2,078	16.89%
2019	<ul style="list-style-type: none"> • All Employees with Elections during Open Enrollment 	10	6,673	0.15%
Change	Expanded testing in 2019.	(341)	4,595	(16.74%)

**DIA did not include the 89 employees with pay rate discrepancies for supplemental life between SAP and Payroll Registers from the 2018 review. In 2018 DIA did not assess the financial impact (overpayment/underpayment) of these discrepancies, if any, as was done in 2019.*

In 2019, Benefits changed the way supplemental life coverage was calculated, from a salary multiplier in 2018 to now using increments of \$10,000 up to \$500,000. In 2018, the salary multiplier resulted in miscalculations because non-executive agencies do not use SAP to track salary information such as pay rates. Consequently, due to the elimination of the salary multiplier, DIA noted there were fewer findings in the 2019 review of supplemental life withholdings (4 employees) when compared to last year’s review (89 employees).

2) VALIDATION OF BENEFITS ELIGIBILITY FOR TERMINATED EMPLOYEES

DIA performed a review and analysis of medical, dental, vision, FSA, and pharmacy eligibility files to ensure all participants in the program were active County employees or dependents of active employees.

DIA analyzed employee eligibility for the medical, dental, FSA (flex spending account), vision, and pharmacy providers by comparing employees listed in the providers’ eligibility files to the County’s SAP Files. We performed the analysis to identify ineligible employees and dependents receiving benefits under the County’s plans. The following table displays our results:

Plans	# of Subscribers	Total Ineligible	Subscribers not Found*	Error Rate
Medical				<0.2%
Vision	3,360	-	1	<0.1%
Dental	4,756	-	3	<0.1%
Flex Spending	1,809	5	-	<0.3%
Pharmacy	6,031	1	3	<0.1%
Totals	22,820	22	7	<0.1%

**This finding was related to data entry errors with employee SSN either with the County or the providers. Benefits is working with the providers to remove all invalid SSN records. DIA noted two out of the seven invalid SSN records still appeared in the most recent provider files. DIA notified Benefits to confirm with the providers that the two remaining records would be removed.*

The above noted ineligible employees were not timely terminated from their respective plans and continued to receive benefits. DIA confirmed that nine of the 22 ineligible subscribers were deactivated with the provider during our review. As of the date of the report, Benefits has not fully addressed the remaining 13 ineligible subscribers with active benefits but indicated the findings will be addressed as soon as possible.

DIA did not request actual benefits paid from the medical, FSA, and pharmacy providers to determine the amount paid for these ineligible subscribers and their dependents, as these benefits are self-insured (the County pays all claims directly for medical, FSA and pharmacy benefits). Benefits will determine if any claims were paid for the ineligible subscribers and their dependents. If identified, Benefits will attempt to collect any and all claims paid for these ineligible subscribers.

In 2018 DIA reviewed the pharmacy eligibility specifically. DIA noted there were fewer findings in the current review and analysis of a select pharmacy eligibility file when compared to last year's review. A comparison of reviews is noted in the following table:

Description of Results	Pharmacy		
	2018	2019	Change
Total Number of Subscribers	6,307	6,031	(276)
Total Ineligible Subscribers	34	1	(33)
Total Subscribers not in County's Eligibility Files	6	3	(3)
Error Rate	0.6%	<0.1%	0.5%

Action Plan and Final Communication

DIA communicated and distributed the results to Benefits during the review. Due to the recent 2020 open enrollment period, Benefits has not addressed the remainder of the above noted findings as of the day of this report but has indicated the findings will be addressed. DIA will update our results and notify the appropriate parties of any significant changes to the below findings, if necessary. Since this is a recurring review, DIA plans to review the results of the 2020 open enrollment elections as part of the 2020 Audit Plan.

We would like to express our appreciation to the Benefits staff and DoIT staff. If you have any questions, comments, or concerns regarding the above results please feel free to contact me.

Respectfully,

A handwritten signature in black ink that reads "Rose M. Karam". The signature is written in a cursive, flowing style.

Rose Karam, CFE, CIA
Interim Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
Bill Mason, Chief of Staff
Greg Huth, Law Director