Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

Cuyahoga County Human Resources
Benefits Department Review and Follow Up
January 1, 2018 – August 31, 2018

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CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING

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

January 25, 2019

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

Introduction

In 2018, the Director of Human Resources (HR) Benefits and Compensation requested the Department of Internal Auditing's (DIA) services to review select pharmacy eligibility and payroll withholdings from the County's open enrollment (OE) process. DIA concurrently completed a follow up to a similar review conducted in 2017.

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 2018. The procedures and objectives for this engagement were limited to:

1) Recalculation and reconciliation of employee withholdings to actual withholdings for the first seven pay periods of 2018. Specifically, DIA attempted to ensure the accuracy of elections for the following groups:
    a. Vision coverage waived[1] during OE.
    b. Medical coverage waived[1] during OE in select union groups.

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[1] *Employees could receive allowances for waiving insurance plans depending on the type of coverage waved and bargaining status.*

   - **c.** Flexible Spending Account (FSA) elections for medical or dependent care expenses.
   - **d.** Life insurance elections based on a multiplier of employees' annual salaries.

2) Confirm that employees defaulted into the same insurance plans from elections in the prior year if those employees did not elect any changes during OE for 2018.

3) Verify the accuracy of "waived benefits" allowances for temporary employees that were erroneously defaulted into a waive plan.

4) Ensure terminated employees did not have active benefits by comparing the pharmacy eligibility file 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 directly obtained data from SAP[2] employee master records and payroll registers. The following list the reports and files used by DIA:

- ***OE Files*** –Open Enrollment Final Confirmation Report files for plan year 2018. These files contained employee selections for all benefit plans (i.e. dental, vision, life insurance, medical and FSA) for the 2018 plan year.
- ***Provider Eligibility Files*** – Eligibility files from the pharmacy provider provided by DoIT.
- ***SAP Files*** – County master employee records, Zjournal (journal listing all employee benefit deductions) and life insurance premium report.
- ***Rate Table*** – 2018 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 factor into premium rates, such as administrative costs in addition to plan premiums. A percentage (12% for most plans) of the total premiums become the employee's responsibility through payroll deductions, while the County contributes the remainder. Premium rates are communicated to County employees during OE. The 2018 OE occurred between October 23, 2017 and November 6, 2017. During this time, County employees selected or opted-out of insurance plans offered by the County for the 2018 plan year during OE. Plans selected during OE were effective January 1, 2018 through December 31, 2018 unless a qualifying event occurred for an employee. Qualifying events include marriage, divorce, and birth or adoption of a child.

Following OE, 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.

During the plan year, Benefits is responsible for verifying eligibility for all County plan members. Periodically, DoIT distributes an eligibility file to each provider. When employees are terminated

[2] *Information system utilized by Benefits to track and store benefits and payroll data.*

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 May and August of 2018, Benefits was still in the process of reviewing and addressing the results as of the report date due to implementation of the County's enterprise resource planning system. DIA will update our results and notify the appropriate parties of any significant changes to the below findings, 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 31, 2018 (PP7).

DIA recalculated deductions and allowances through PP7 to compare to total actual deductions and allowances through PP7, communicated by Benefits to be the pay period that any known errors in withholdings were corrected. After comparing the recalculated amounts to actual pay register deductions and allowances, 351 out of 2,078 County employees tested, or 17%, in the OE Files were not accurately reconciled to the Deduction Registers at PP7 for a net total of $6,360 being owed to employees; meaning actual employee deductions and allowances were more than the recalculated employee deductions and allowances based on open enrollment plan selections. Results are noted in the following table:

Description of Employee Group Tested	Not Enough Withheld		Too Much Withheld	
	Employees	$	Employees	$
Employees Waiving Vision Coverage	86	$(1,592)	97	$4,351
Employees with Medical Allowances*	15	(328)	56	8,480
Employees Electing FSA	60	(5,633)	18	777
Employees Electing Life Insurance	12	(30)	7	335
Totals	**173**	**$(7,583)**	**178**	**$ 13,943**

**As part of this recalculation, DIA used an allowance of $35.00 per pay period for an AFSCME bargaining unit employee waiving medical coverage, as verbally stated by Benefits. However, the benefits allowance schedule provided by Benefits indicates the allowance should be $30.45 per pay period for employees in the AFSCME bargaining unit waiving medical coverage. DIA also recalculated the AFSCME employees' deductions using the $30.45 allowance and noted the total variance does not significantly change for over withholdings (too much withheld) but increases total under withholdings (not enough withheld) by $875.*

DIA noted similar findings in the prior year review of employee withholdings. Benefits is in the process of validating and correcting the results, but some common causes for the discrepancies include:

- Errors in withholdings for terminated employees, or employees on an unpaid leave of absence.
- No withholdings for employees whom elected one or more types of coverage.
- Employees were charged for more than one type of life insurance coverage even though the employees only qualified for one, or the amount of life insurance premium was not always withheld for the correct amount.
- Employees not qualified for medical allowances received the allowance, or allowance eligible employees did not receive the correct amount.

Benefits communicated that many of these discrepancies were caught and corrected in a pay period prior to year-end of 2018. For the discrepancies which remain Benefits will work with their external benefits consultant, Oswald, to determine if there will be any impact on year-end W2 reporting to the IRS and how best to recover or pay any funds due to employees. Benefits expects the County's enterprise resource system to prevent these issues from occurring in the future. Benefits utilized the new system for 2019 OE.

In addition, Benefits requested that DIA compare pay rate information between SAP and the Payroll Registers for County employees to identify inaccuracies in employee life insurance deductions. Deductions for employees electing life insurance coverage with a salary multiplier (e.g. coverage = salary x2) are calculated based on an employee's salary. The payroll deduction for this type of coverage is calculated in SAP. Miscalculations occurred for employees in non-executive agencies that do not use SAP to track salary information, like pay rates.

DIA identified pay rate discrepancies for 89 employees when comparing pay rates between SAP and the Payroll Registers. These discrepancies more than likely caused inaccuracies in both life insurance deduction and elected coverage amounts. DIA provided these results to Benefits. As of the day of this report, Benefits was validating and addressing the findings. Assessing the financial impact of these discrepancies was outside the scope of work requested by Benefits. ***In 2019, Benefits will not offer the salary multiplier option and only offer whole dollar amounts for life insurance cover.***

2) ***<u>VALIDATION OF EMPLOYEES DEFAULTING INTO INSURANCE PLANS</u>***

DIA reviewed a list of County employees that did not enroll in benefit plans during OE. These employees should have defaulted into the same plan(s) from the prior year (2017).

DIA identified these employees and reviewed their benefit plan records in SAP. The employees' benefit elections were then compared to the prior year benefit plans as reflected in SAP. The following table shows the number of County employees that did not enroll during OE and the number of those employees whose benefit plans did not correctly default to their prior year benefit plan(s):

Number Employees Not Enrolling in Benefits	**459**
Number of Employees Inaccurately Defaulted to a Plan*	102
Error Rate	**22.2%**

**This number does not mean that all the employees' plans were inaccurate. Only one of the plans (medical, dental, vision, etc.), or coverage type such as employee versus employee and family, had to be inconsistent to be included in these results.*

DIA provided these results to Benefits. As of the day of this report, Benefits was validating and addressing the findings. Assessing the financial impact of these discrepancies was outside the scope of work requested by Benefits.

3) *VERIFICATION THAT TEMPORARY EMPLOYEES DID NOT RECEIVE "WAIVE BENEFIT" ALLOWANCE*

Temporary County employees are ineligible for County benefits and cannot receive an allowance for waiving insurance coverage. Benefits requested DIA ensure temporary employees were not erroneously defaulted into a waive plan. DIA pulled the total population of temporary employees directly from SAP for the first four months of 2018. The file was compared with the County's Deduction Register for PP7 to identify if temporary employees erroneously received an allowance for waiving medical coverage. The following table displays our results:

Total Temporary Employees	**100**
Total Paid the Allowance	13
Total Allowance Erroneously Paid*	$ 1,158
Error Rate	**13.0%**

**This amount only reflects total allowance paid thru PP7 of 2018. Additional amounts may have been paid in future periods in 2018.*

Benefits determined that four of these temporary employees, totaling $493, worked enough hours per week to be eligible for benefits. However, benefits were not formally offered to these employees as required under federal regulations.

The remainder of the employees were not eligible for benefits and should not have been paid the allowance. Benefits determined five of these employees were no longer employed by the County. Benefits plans to pursue repayment for the employees paid the allowance in error.

4) ***VALIDATION OF SELECT PHARMACY ELIGIBITY FOR TERMINATED EMPLOYEES***

DIA performed a review and analysis of a select pharmacy eligibility file to ensure all participants in the program were active County employees or dependents of active employees. This procedure was not completed until after DoIT performed their own audit of provider and County records. The provider updated their eligibility files following DoIT's audit.

DIA analyzed employee eligibility for the pharmacy provider by comparing employees listed in the provider's eligibility files to the County's SAP Files. We performed the analysis to identify ineligible employees and dependents receiving benefits under the County's pharmacy plan. The following table displays our results:

Total Number of Subscribers	**6,307**
Total Ineligible Subscribers	34
Total Subscribers not in County's Eligibility Files*	6
Error Rate	**0.6%**

** The cause of this finding related to data entry errors with employee SSN either at the County or the pharmacy provider. Benefits removed the invalid SSN records from the pharmacy provider during the review.*

The above ineligible employees were not timely terminated from their respective plans and continued to receive benefits as of July 3, 2018. DIA did not request actual claims paid from the provider to determine the amount paid for these ineligible subscribers and their dependents, as the County's pharmacy benefits are self-insured (the County pays all claims directly for pharmacy benefits). Benefits plans on determining 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.

DIA had an audit finding in a prior year review for ineligible subscribers having access to dental, vision or FSA coverage and a consistent finding from a comprehensive internal audit of Benefits that included ineligible subscribers for pharmacy benefits. However, the number of ineligible subscribers for pharmacy benefits has declined since the audit period (2011-2015) of the internal audit report.

Action Plan and Final Communication

DIA communicated and distributed the results to Benefits during the review. Due to implementation of the new open enrollment system, Benefits has not fully addressed all the above findings as of the date of this report and indicated the findings will be addressed as soon as possible in 2019. DIA will update our results and notify the appropriate parties of any significant changes to the above findings, if necessary. DIA plans on performing a review on the 2019 open enrollment elections as findings persisted from 2017 to 2018's open enrollment.

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,

Cory A. Swaisgood

Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
Matt Carroll, Acting Chief of Staff
Nora Hurley, Interim Law Director
Michael C. O'Malley, Cuyahoga County Prosecutor