

OFFICE OF AUDITOR GENERAL



Employee Benefits
Audit Report

July 22, 2008



Employee Benefits Index

| <u>Report Section</u> | <u>Pages</u> |
|--|--------------|
| Executive Summary | |
| Objective/Conclusion | 2 |
| Summary of Recommendations | 4 |
| Observations, Recommendations, and Action Plans | |
| Communications | 5 |
| Policies and Procedures | 6 |
| Oversight | |
| Joint Committee Oversight | 8 |
| Clarification of the Role of the Superintendent | 9 |
| Accuracy and Completeness of Employee Files | |
| Inaccurate Entry into PeopleSoft | 10 |
| Clarification of Processing Forms | 11 |
| Organization of Employee Files | 12 |
| Consistency of Information | 13 |



Employee Benefits Executive Summary

OBJECTIVE

To evaluate Employee Benefits including the internal control environment procedures, policies and compliance.

BACKGROUND

The Employee Benefits Department is responsible for all benefits offered to employees and retirees of the District. Programs include medical insurance, life insurance, Employee Assistance Program (EAP), Workers' Compensation plan and short-term disability. They also manage the District's self-administered Sick Leave options, Catastrophic Leave, and Dental Insurance. Many of these programs are governed by the Internal Revenue Code and related regulations.

SCOPE

We evaluated the effectiveness of the internal controls, records, and administrative procedures in place for the Benefits Department. The file maintenance, internal reporting and external reporting were evaluated for maintaining accurate information by the District and our third-party administrators. Attention was given to the timely reporting of employee life event changes for insurance purposes and the review of all recording systems used in producing information for the various programs which included a query from the PeopleSoft HR module.

This audit focused on Medical and Dental Administration, Half-Pay and Catastrophic Leave.

CONCLUSION

The Employee Benefits Audit revealed the need to improve the communication among Human Capital Initiatives, Employee Benefits, and Payroll to ensure the accuracy of recorded benefits. Improvements are needed in providing consistent supporting documentation for decision making in the approval/denial process for Half-Pay and Catastrophic Leave. Although there are not an excessive number of Half-Pay and Catastrophic Leave claims, a legal risk can exist when decisions are not consistent. The legal basis for Half-Pay and Catastrophic Benefits are updated with each renewal of the union contracts, but written procedures and operations are not up to date. Operational procedures used should be reviewed, updated, documented and enforced for all areas of the District. Collaboration is suggested and should include individuals from Human Capital Initiatives, Employee Benefits, Payroll, and Supervisors from the various areas of the District (schools and Central Office).



Employee Benefits Executive Summary

CONCLUSION (Continued)

The Superintendent's approval for Catastrophic Leave was delegated to the Chief of Human Capital Initiatives. It is unclear when the delegation occurred and if the current Superintendent wants to continue this practice. Written delegation of authority should be obtained from the current Superintendent.

Changes have occurred during this audit to improve the documentation of decisions. Payroll and Employee Benefits have worked together to clarify pertinent information on the Leave Processing Form. Employee medical files have been "cleansed" and organized to allow a better trail for understanding in each case. There is an opportunity to streamline and reduce the quantity of paper maintained in files for documentation. Efficiencies could be created by improving the flow of information and processing time.

Improvements are also necessary in the review and payment processes. Information contained in the manual files was not always reflected in the PeopleSoft system. Responsibility for the reconciliation of information is not clear. Our recommendations will improve the completeness and accuracy of information, strengthen existing controls, and create efficiencies in workflow.

Health and dental benefits rely on information communicated to and received from third-party administrators. Automated validation procedures have been established to effectively monitor changes in benefit status. Overall, these procedures are adequately controlled and working efficiently. Management is currently working to enhance the verification process for dental administration. At the time of our review this initiative was still in process.



Employee Benefits Summary of Recommendations

| | Recommendations |
|---|--|
| 1 | <i>Develop a cohesive workflow to improve employee benefits tracking by establishing a work group of individuals from Employee Benefits, Payroll, Human Capital Initiatives and representatives from school supervision. Design a plan to maximize efficiencies, improve communications and tracking by clearly defining roles, responsibilities and accountability.</i> |
| 2 | <i>Develop and implement written policies and procedures documenting all functions and guidelines for half-pay and catastrophic leave.</i> |
| 3 | <i>Develop and document the criteria to be used in the Joint Committee decision making.</i> |
| 4 | <i>Obtain written documentation for delegation of authority from the Superintendent to the Chief of Human Capital Initiatives for duties stated in contracts.</i> |
| 5 | <i>Establish review and reconciliation processes for Half-Pay and Catastrophic Illness Leave benefits.</i> |
| 6 | <i>Redesign the Leave Processing Form to clarify responsibility of each department, calculation support, and clarification of information required on the form.</i> |
| 7 | <i>Establish documentation and tracking system to be used in the paper files.</i> |
| 8 | <i>Revise employee approval letter to clearly communicate the total days of half-pay benefit, approval of days for current event and remaining days of benefit.</i> |



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #1

Communications

Employee Benefits, Human Capital Initiatives, Payroll and Supervisors do not have clearly defined roles. As a result, effective tracking of employee information is lacking. The responsibilities of the areas are not clearly defined or understood by each department which has caused some duplication of efforts, as well as leaving areas exposed for error. While there is communication among the departments, it is not consistent or efficiently designed. This may cause improper paid benefit amounts to be given to employees. It may also lead to additional work in order to recoup funds from employees and/or additional time to investigate discrepancies and correct problems.

RECOMMENDATIONS and MANAGEMENT RESPONSE

Develop a cohesive workflow to improve employee benefits tracking by establishing a work group of individuals from Employee Benefits, Payroll, Human Capital Initiatives and representatives from school supervision. Design a plan to maximize efficiencies, improve communications and tracking by clearly defining roles, responsibilities and accountability.

Management Responses:

Representatives from the four work areas will meet to define roles and responsibilities, improve communications, and work toward efficiencies as a comprehensive group. We have already started improvements in our tracking methodology (Reports, BENR017 and BENR131) by the addition of the payroll Supervisor to the distribution list.

We plan to establish a joint committee comprised of representatives from Human Capital Initiatives, Employee Benefits, Payroll and lead school secretaries in October to improve communications throughout the benefits flow.

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: November 1, 2008



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #2

Policies and Procedures

The policies and procedures provided to OAG for the audit included union agreements and SEG Rules and Regulations concerning the granting of Half-Pay and Catastrophic Illness Leave. Procedures for handling these requests were provided by the Employee Benefits Department. Although the union agreements are regularly renewed, the written procedures have not been updated since 1996. The forms used in this process indicated revisions in 2005. The information obtained from these documents is not supportive of the practice that is currently being applied.

In both Half-Pay and Catastrophic Illness Leave, it is stated that the Certificate of Personal Illness (CPI) is to be submitted each month to the Payroll Department in order for salary checks to be released. This is not performed. For Catastrophic Illness Leave, once the initial CPI is received, another CPI is not requested until an extension or a second Catastrophic Illness Leave is requested. Half-Pay CPIs are not consistently given to Employee Benefits, although procedures require that they be sent to Employee Benefits each month. During the audit, Elizabeth Camilleri, Director of Payroll, began documenting the procedures of Half-Pay and Catastrophic Illness Leave from a Payroll perspective. Additional work and collaboration with Employee Benefits is recommended to complete this work.

RECOMMENDATIONS and MANAGEMENT RESPONSE

Develop and implement written policies and procedures documenting all functions and guidelines. The manual should, at a minimum, include the following:

- *Definition of acceptable Half-Pay and Catastrophic Illness Leave request.*
- *Specific requirements for application of requests.*
- *Detailed instructions regarding supporting documentation from attending physician, including when and where Certificates of Personal Illness are to be sent.*
- *Detailed job responsibilities and duties for all areas involved with Half-Pay and Catastrophic Illness Leave: Employee Benefits, Human Capital Initiatives, Payroll, Supervisors of requesting employee, Joint Committee and the Superintendent.*
- *Specific forms to be used in the process.*
- *Grievance process.*



Employee Benefits Observations, Recommendations and Management Action Plans

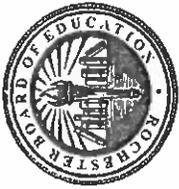
Management Responses:

We have updated the "Absence Request Guidelines" HCI Manual which defines most of our procedures. We have incorporated the responsibilities of Employee Benefits, Joint Committee, Payroll, and HCI for the various processes. As a result of discussion during the audit, we have completed updates for this manual and have incorporated these changes to the Benefits Procedure Manual. We have updated the guidelines and procedures for half pay as well as catastrophic illness leave. We have defined the requirements for ½ Pay and Catastrophic Illness leaves in this "Absence Request Guideline" manual. This manual has been presented to all principals and school secretaries. We have also revised the requirement for the "Attending Physician's Statement" (CPI) and the approval letters to clarify when a CPI is required.

We will continue to update the "Absence Request Guidelines" manual and the "Benefits Procedure Manual".

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: Completed



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #4

Clarification of the Role of the Superintendent

During the interview process with the Director of Employee Benefits and the former Chief of Human Resources, it was communicated that the Superintendent approval for Catastrophic Illness Leave cases was delegated to the Chief of Human Resources. Union agreements and the SEG rules and regulations still state that the Superintendent shall convene a joint committee chaired by the Chief of Human Resources to review Catastrophic Illness Leave request and that the committee recommends and the Superintendent approves the illness days. It is unclear when the delegation was established, since there have been three Superintendents in the last two years. It is not clear whether this delegation of authority has been made by the current Superintendent.

Documentation of the delegation of authority from the Superintendent to the Chief of Human Capital Initiatives for Catastrophic Illness Leave cases should be documented upon the change of Superintendents and not assumed. Without proper communication and documentation, misunderstandings could occur and authority usurped.

RECOMMENDATIONS and RESPONSES:

Obtain written documentation for delegation of authority from the Superintendent to the Chief Human Capital Initiatives for duties stated in employee contracts. If it is the intent that the Chief Human Capital Initiatives Officer should maintain these duties, then the language of the contracts should be changed to substantiate the District intent and practice.

Management Responses:

Michele Hancock is obtaining the Superintendent's approval of his delegation of authority. Collective Bargaining Agreements currently contain a provision for the Superintendent to convene a joint committee chaired by the (Chief of HCI) to approve the request for catastrophic illness leave.

Responsibility: Jean-Claude Brizard, Superintendent; Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: November 1, 2008



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #5

Inaccurate Entry into PeopleSoft

PeopleSoft documentation for Half-Pay Leave is not consistent with the supporting documentation. It was discovered during testing that the Half-Pay benefit calculated and approved is not consistent with information found in the Payroll System. There were cases found where Employee Benefits had stated that it should be half-pay and the Payroll System stated unpaid illness or a status other than half-pay. This is caused when supervisors do update Time and Labor (PeopleSoft) files when half-pay status is approved. Supervisors often enter the time for employees before it is known that half-pay has been awarded. No one, including Managers, Payroll, or Employee Benefits goes back to review information placed into the system.

There should be a review and reconciliation process to ensure that information recorded in the Payroll System for Half-Pay and Catastrophic Illness Leave agrees with benefits approved and paid. Clear and consistent documentation should be kept for all leave benefits. Improper documentation could result in the incorrect payment of benefits to employees. Benefits could be awarded to employees that are no longer eligible for the benefit.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish review and reconciliation procedures for Half-Pay and Catastrophic Illness Leave. Discussion should be held with Payroll, Human Capital Initiatives, Employee Benefits and School Liaison to establish the most efficient way of ensuring correct documentation.

Management Responses:

Our review and reconciliation process for half-pay and catastrophic recording includes:

- Automated PeopleSoft reports BENR017 (Catastrophic log) and BENR131 (1/2 Pay log) which run bi-weekly and are distributed to Payroll, Employee Benefits and Human Capital Initiatives. During the audit process, we have added the Payroll Supervisor to the distribution list for these two automated reports.
- The new Joint Committee (referred to in Observation #1) will define roles and responsibilities of school liaisons (the time keepers in the schools)

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: November 30, 2008



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #6

Clarification of Processing Forms

"Request for Payroll Information" forms are initiated by Employee Benefits and completed by Payroll for use in the Half-Pay and Catastrophic Illness Leave processing. These forms establish the last day that Leave Balances are available, the first day to be used for Half-Pay or Catastrophic Illness Leave, and other employee information. The form is confusing and does not clearly establish the responsibility for Employee Benefit and Payroll information. In addition, there are multiple requests received from each employee and there is no indication on the form to identify which request is being referenced. The information is also not reviewed for accuracy.

During the course of the audit, Payroll and Employee Benefits have worked together to clarify this form. Information provided by both departments has been segregated for clarity. Clarification is still needed for populating the maximum entitlement line. Information provided on this line needs to be consistent and clearly understood by all participants. Documentation provided on this form should be reviewed for accuracy along with supporting documentation for calculations. Miscalculations of leave entitlement could cause an overpayment or underpayment to an employee. Additional time is required to recover employee overpayments. Additional upfront clarification and review could result in fewer incorrect payments.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Redesign the Leave Processing Form to clarify responsibility of each department, calculation support, and information required on the form.

Management Responses:

The form "Request for Payroll Information" has been revised to clarify responsibilities between Payroll and Employee Benefits. The form is broken into two segments: employee information and payroll information. The employee information is completed by the benefits department. Information concerning payroll is completed by the payroll department. Both sections are signed by the individual providing the information. The request is returned to Employee Benefits.

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director; Elizabeth Cammilleri, Director of Payroll

Due Date: Completed



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #7

Organization of Employee Files

An employee may have several Half-Pay Leave requests during a specified period. When this occurs, documentation including requests for payroll information, approval or denial, and CPI's must be provided for each incident. Accessing this information in the paper files becomes cumbersome and confusing due to lack of organization and excessive paper kept in files. Multiple copies of the same form and/or handwritten copies sent to word processing are all kept in the file. Some of this paperwork is not necessary for supporting documentation.

Paperwork for each incident should be kept together for clarity and documentation of the process per incident. A tracking system should be devised to support multiple requests and the status of each request. Lack of clear documentation and tracking could result in the incorrect approval of additional requests.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish documentation and tracking system to be used in the paper files. Files should maintain only the final, necessary documentation. Additional papers used for typing, etc should be cleansed from the file. Consider the use of a checklist to identify missing documents and a summary sheet to be kept in each Employee File to show the history of requests.

Management Responses:

We have created a tracking form "Half-Pay Eligibility Worksheet" to be attached to each file. This worksheet establishes the eligibility of the employee by union, years of service, any breaks in service, number of requests, and dates of prior approvals of half pay. The balance(if any) of unused days, from either a previous request or as an extension of an existing disability, will determine the maximum days of eligibility and total days to be approved for this occurrence. The file cleansing began during the audit. Extra copies and unnecessary worksheets were removed from most of the files. Going forward only as updated documentation is received, older copies will be removed from the files. We are creating a checklist to be placed with each file in order to maintain proper documentation and history for each employee file.

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: October 1, 2008



Employee Benefits Observations, Recommendations and Management Action Plans

OBSERVATION #8

Consistency of Information

When employees request Half-Pay Leave, a letter of approval or denial is sent to the employee. This letter generally states the dates of approval as well as the number of days approved. During the audit testing it was noted that the information given to employees concerning their leave was not consistent with recorded information or in reporting information to employees. Some letters indicated only the number of days allowed for the event where in some cases the letter informed them of total days available. In cases where employees have requested extensions, the information given them did not specify remaining days of eligibility. Improving this area would help lessen incorrect approval of Half-Pay Leave benefit to employees as well as improve communications to employees. It would also lessen the chances of employees being overpaid for a benefit and requiring the District extra efforts to recoup funds.

Letters to employees should clearly communicate the total number of days available to the employee, the number of days approved as well as the remaining days. This would improve communication to the employee as well as be a review and check point for employee benefits to confirm remaining days of benefit.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Revise employee approval letter to clearly communicate the total days of Half-Pay Leave benefit, approval of days for current event and remaining days of benefit.

Management Responses:

The Half-Pay Leave approval letter has been revised to communicate to the employee the number of days granted out of the maximum number of days allowed by the employee's eligibility. It also includes the date that illness, vacation and personal business days were exhausted and the start and end date of the half-pay sick leave.

Responsibility: Michele Hancock, Chief of Human Capital Initiatives; Nancy Palozzi, Employee Benefits Director

Due Date: Completed