

HEALTH BENEFITS ADMINISTRATION AUDIT

PROGRAM EVALUATION AND AUDIT



METROPOLITAN
C O U N C I L

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INTRODUCTION

Background

The Metropolitan Council (the Council) provides a highly competitive benefits package in order to attract and retain high quality employees. The Council offers benefits to over 4,000 full and part time, union and non-union employees. The Council also provides certain benefits to retirees. All benefits programs are developed to comply with applicable laws, regulations, policies and labor agreements. Human Resources is responsible for administering benefit plans equitably and according to plan documents and regulations.

The Council provides medical and dental plans for eligible employees. Employees may elect single or family coverage; or waive coverage. Employee contributions are based upon collective bargaining agreements and the non-represented plan. All employees must complete enrollment forms within 31 days of becoming eligible for benefits. Only a change in family status (e.g., marriage, divorce, birth/adoption, change in coverage through another employer, etc.) may allow an employee to enroll or make changes during the course of the plan year. All new, eligible employees electing to enroll dependents in Council medical and dental programs are required to provide documentation of dependency status. The documentation is then reviewed and approved by the Council's benefits team. Any approved mid-year qualified changes will also require documentation that supports the status change. Documentation may include birth certificates, marriage certificates, divorce decrees, loss of coverage certification, etc. Additionally, some retirees are eligible for subsidized medical coverage based on age and years of service at the Council. This determination is made by the Council's benefits team. Other benefits include, basic life insurance, employee supplemental life insurance, dependent life insurance, flexible spending account, healthcare savings plan, deferred compensation among others.

Benefitfocus is the system of record for most employee benefits. The system interfaces with all benefit administrators and payroll. An agreement was signed with Benefitfocus in December 2013 for HR INTOUCH Professional Services, and HR INTOUCH Software Services and Monthly Managed Services. Further, employees upload any documentation relating to dependents to Benefitfocus. At the time of the audit, the Total Administrative Services Company (TASC) was the billing administrator for retiree benefits and they previously provided retiree enrollment, state continuation and federal COBRA administration. As of January 1, 2017, 121 Benefits now provides the same services.

Purpose

The purpose of this audit was to ensure that the health benefits program is being consistently and correctly administered and that the calculation of benefits is accurate and complete through the Thrive MSP 2040 lens. In accordance with Thrive MSP 2040 principles, "results matter, and for the Council, accountability includes a commitment to monitor and evaluate the effectiveness of our policies and practices."

Scope

The audit focused on the administration of health benefits and specifically payroll transactions for calendar year 2015 and the first quarter of 2016 related to medical insurance. Health benefits administered to all full-time, part-time employees, retired employees, and terminated employees during 2015 and the first quarter of 2016 were reviewed.

Methodology

To ensure that the health benefits program is being consistently and correctly administered in accordance with the labor agreements, the following methods of inquiry were used:

- Review of health benefits policies and procedures
- Review of labor agreements
- A statistically significant number of payroll transactions for a sample of employees.
- Interviews with human resource, finance and payroll staff
- PeopleSoft queries
- Payroll reports
- Employee benefit records
- Retiree benefit payments
- Review of retiree medical benefit determination forms

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the U. S. Government Accountability Office's Government Auditing Standards.

OBSERVATIONS

Audit reviewed a number of processes and procedures within the benefits unit and conducted a number of tests. We found most processes and procedures to be functioning without issue. This can be attributed to the fact that the benefits unit has self-identified a number of audit opportunities within the tasks that they complete. These tasks are completed daily, weekly, bi-monthly, or quarterly and keep things running smoothly with regard to employee benefits and payments to outside vendors. However, we found a few issues over the course of our audit which are described below.

When an employee leaves the Metropolitan Council, documentation verifying eligibility for family coverage is deleted from Benefitfocus

Audit sampled 60 hires/rehires to ensure documentation of dependency status was in place in Benefitfocus for employees selecting family coverage. Of the hires/rehires sampled, 13 elected family coverage. Of those, three had terminated their employment with the Council. The documentation uploaded to Benefitfocus supporting their election of family coverage was subsequently deleted from the document portal in Benefitfocus upon their termination. As a result, the human resources department is not in compliance with the Council's record retention schedule for personnel. The Council's records retention schedule for personnel requires documentation for an employee be retained by human resources for three years after the termination of an employee. The requirement to retain documents was not included in the request for proposal (RFP) prior to the purchase of Benefitfocus; nor was it included in the contract with Benefitfocus. A staff member from benefits has requested an enhancement from Benefitfocus; however, it could be months before the enhancement is completed.

Work instructions are not in place for four of twenty-nine tasks within the benefits team

Audit requested work instructions for 29 tasks completed by benefits staff. We found that work instructions were not in place for four of the tasks, including payroll adjustments (missing paycheck and zero paycheck process), deferred comp audit, the monthly invoice process for group universal life (GUL), and the health care savings plan (HCSP) task. While not having work instructions hasn't been an issue for the benefits team, if an employee responsible for these tasks were to leave the Council it could be difficult for a different employee to complete the tasks without written instructions. Over time, benefits staff have been tasked with writing written procedures for the tasks they do by different managers. At the Council, the Provision of Internal Administrative Services policy holds the manager of each internal administrative service department or office with the responsibility for developing procedures that support the Internal Administrative Services policy. The policy states that the Council's internal administrative services departments and offices will provide services to internal customers in a timely, cost-effective and responsive manner.

Benefit premiums for one bi-weekly period were not deducted for one new hire out of sixty reviewed

Audit sampled 60 hires/rehires to ensure the correct benefit deductions, according to their elections, were taken from their paychecks. We found all but one had the correct medical and dental premiums deducted for the period reviewed. The medical premium amount was \$111.43

and the dental premium amount was \$8.26. Failure to deduct the correct premium amount meant the Council did not collect the employee's premium contribution for one bi-weekly period. Benefit deductions pay for the month in which they occur and are deducted bi-weekly. Benefits staff must track all new hires to ensure the correct benefit deductions are taken from their paychecks. According to benefits staff, it is rare for the correct deductions to be taken in the first month the employee is eligible for benefits. This is often the case because of the timing of paychecks, according to benefits staff. For example, if an employee started November 14, 2016, their first paycheck would be December 2nd. The employee would still owe premiums for November thus the paychecks in December would need to be adjusted to account for this. Benefits staff would provide the adjustment needed for the employee premiums to payroll. A secondary review and/or supervisory sign off of the adjustment does not occur before benefits staff provides the adjustment to payroll. If an employee begins on the 16th through the last day of November, premiums will be deducted from the first paycheck of the following month. This usually results in the correct deduction being taken because this employee would not have to pay for November premiums.

Benefit premiums were not correctly deducted for four out of thirty-nine unpaid employees reviewed

Audit reviewed 39 unpaid¹ employees in a judgmental sample and found one employee did not have the correct medical and vision premiums deducted for the January to July 2016 period. One did not have the correct dental and vision premiums taken. Two did not have the correct vision premiums taken for the same period. The total premiums not collected for medical, dental and vision was, \$3.50, \$25 and \$68.10 respectively. If an employee is unpaid for a pay period, benefits staff has to determine what they owe for the unpaid period(s) (through the missing paycheck and zero paycheck processes). Once it is determined what they owe or do not owe, benefits staff provide the adjustment to be made to a future paycheck to payroll. This occurs without a secondary review and/or supervisory sign off. Alternatively, benefits staff may determine a payment plan for the employee if the employee will be out for an extended period of time. According to benefits staff, the zero-paycheck process was not being done on a regular basis for the pay periods under review. Thus, most of the adjustments that may have been needed for medical and dental premiums, for unpaid employees, were caught in July when the contract was settled for the members of the union sampled as the cost of the premiums changed. However, the cost of the vision plan did not change and thus the vision deductions were not caught at that time. And while the amounts owed were small, there is not a control in place to ensure benefit deductions are made by the end of the year independent of the zero and missing paycheck processes which are manual. This poses the potential that additional premiums could be owed outside of those identified in our sample.

¹ Unpaid employees are employees with no pay for a period and the deductions owed are managed by benefits. Audit reviewed unpaid employees for two pay periods, the payroll period ending February 12, 2016 and the period ending February 26, 2016. We then reviewed the premiums paid for the January to July 2016 period.

CONCLUSIONS

Ensuring that proper benefit contributions are collected for the Council's 4,000 employees can be a complicated task for the Human Resources department given the number of staff that arrive at the Council, separate from the Council or have any number of special circumstances. Ensuring accuracy and proper documentation for these transactions is essential to protect the Council, as well as its current and former employees. The results of this audit clearly show that for the most part, Human Resources staff are effective in managing benefits processes and accounting for uncommon situations. However, the few examples of mistakes we found coupled with the absence of controls such as secondary review or work instructions indicate that management should take a fresh look at the control environment for these processes. An update would better protect the Council from potential losses, and also prepare the department for future staff turnover at key positions on the benefits team.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council's Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council's Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. **(Essential) Benefits staff should determine an alternative way to save employee dependent documents before they are deleted from an employee's record in Benefitfocus. In addition, benefits should continue seek an enhancement from Benefitfocus that would retain a dependent document in Benefitfocus upon an employee's termination.**

Management Response: *We were not aware that the Benefitfocus system was not keeping dependent documents after employees terminated employment. Once we became aware of this fact, we filed a case with Benefitfocus to fix their system so they can store documents at least the minimum number of years required by law. In the meantime, we are scanning all dependent documents into our App Extender system for permanent storage.*

Staff Responsible: *Chris Piehowski*

Timetable: *Complete*

Thrive 2040 Principles: *Accountability*

- 2. (Essential) Work instructions should be written for tasks within the benefits department that do not currently have work instructions. This would include the tasks identified in this report but also any other tasks that may not have work instructions.**

Management Response: *Benefits staff will complete the following four work instructions: payroll adjustments, deferred comp audit, monthly invoice process for group universal life, and the health care savings plan task.*

Staff Responsible: *Barb Rossi*

Timetable: *Quarter Two*

Thrive 2040 Principles: *Accountability*

- 3. (Essential) To address benefit deductions not taken for both the new hires and the unpaid employees, benefits should develop a process to review all employee benefits selected vs employee paycheck deductions on a periodic basis and at a minimum, yearly. Additionally, a secondary review and/or sign off should be completed before adjustments are provided to payroll for both the new hire benefit adjustments as well as the unpaid employees benefit adjustments.**

Management Response: *Benefits staff will develop a quarterly audit of payroll deductions using queries in PeopleSoft. It is not practicable for daily adjustment sign-offs as the calculations are manual and turnaround time is tight to meet payroll deadlines. Currently, Payroll staff does a review of the adjustments prior to entering them in employees' paychecks.*

Quarterly audits will catch adjustments in the same tax year and a year-end audit will also be done prior to new tax year.

Staff Responsible: *Chris Piehowski and Mary Tillemans*

Timetable: *Quarter Two*

Thrive 2040 Principles: *Accountability*



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