Columbus City Schools
Office of Internal Audit

Human Resources - Benefits

Audit Report

Report Date: April 22, 2021

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Executive Summary

The Columbus City Schools (District) Office of Internal Audit (OIA) recently completed an audit of the Human Resources Benefits section. This general audit evaluated objectives selected by OIA to assess the internal controls put in place by both the Benefits section and the service providers that the District contracts with to provide benefits.

To assess the Benefits section's internal controls, our objectives focused on the management, processing, and delivery of benefits services to District employees. We mapped the Benefits section's process flows, identified key control and monitoring activities, and assessed their effectiveness. We also performed process flow mapping on the following service organization processes: open and intermediate enrollment, implementation, eligibility, dependent enrollment/eligibility, claims adjudication, repository activity, and claims payment.

To assess service provider internal controls, we reviewed the System and Organization Controls (SOC) reports for each benefits service provider to map their process flows. We also summarized the user controls suggested by each service provider to mitigate process deficiencies and gaps and determined whether these controls were implemented by the Benefits section.

OIA control testing revealed deficiencies and gaps in the Benefits section's internal control structure, due to varied process flows. Additional deficiencies and gaps were revealed in a review performed of the District's Human Resources Department by the Council of the Great City Schools (CGCS), delineated in a report dated Spring 2020. The CGCS report includes recommendations designed to mitigate the deficiencies and gaps discovered during their review. OIA has offered "mitigation hints" to help the Benefits section implement the recommendations given by CGCS and a suggested structure to develop, implement, and govern a change management process and to monitor newly implemented systems or processes for effectiveness and efficiency.

To comply with *International Standards for the Professional Practice of Internal Auditing* by not performing duplication-of-effort, those procedures where work performed by CGCS overlapped with OIA-planned procedures for this audit were not performed. This did affect certain objectives originally planned for this audit.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. Our audit included such procedures as we deemed necessary to provide reasonable assurance regarding the audit objectives. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal Audit helps an organization accomplish its objectives through a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

OIA reported 7 issues and 16 recommendations. OIA rated the risk associated with the seven issues as follows:

High	Moderate	Low
2	4	1

During the course of the audit, we made the Human Resources Department management aware of our issues and recommendations for improvement. Good discussion took place regarding the recommendations. OIA appreciates the cooperation extended to us and the assistance of all staff we interacted with as we performed our audit.

The OIA issues noted during the audit are as follows:

Risk Ratings, defined:

1 – High/unacceptable risk requiring immediate corrective action;

2 – Moderate/undesirable risk requiring future corrective action; and

3 – Low/minor risk that management should assess for potential corrective action.

Issues	Risk Rating		
	1	**2**	**3**
Objective 1: To determine whether the Benefits section has written business objectives and whether a periodic risk analysis is performed and documented.			
Issue 1 - The Human Resources Department lacks sufficient governance programs; goals and objectives setting and monitoring; vision setting; strategic planning; and performance measurement.	X		
Objective 2: To determine whether appropriate governance exists over the selected control processes.			
(Issue 1 incorporates the same deficiencies identified when testing this objective.)		N/A	
Objective 3: To determine whether sufficient internal controls are in place and operating as management intends.			

Issue 2 - Benefits management has not implemented suggested user consideration controls or monitoring activities to supplement the service provider control deficiencies and/or gaps or continually reviewed the reports for needed control implementation or modification		X	
Issue 3 – The Benefits section's process lacked evidence of a control procedure to affirm that claims payments were made timely and accurately.			X
Objective 4: To determine whether appropriate monitoring activity is in place and operating to enhance accountability and identify problem areas timely.			
Issue 4 - Benefits error correction process lacks a system of internal control to ensure authorization and accountability for its completeness and accuracy.		X	
Objective 5: To determine whether the applicable laws, regulations, and contractual obligations significant to the process cycles under review were complied with and to assess the degree of compliance.			
Issue 5 - Benefits management could not provide a documented rationale analysis of the section's decision to not maintain stop loss coverage.	X		
Issue 6 - The current internal control environment could be strengthened with additional procedures to enable Benefits staff to effectively identify ineligible dependents and do so in a timely manner.		X	
Issue 7 - The current internal control environment could be strengthened to enable Benefits staff to identify ineligible employees being charged the grandfathered rate for their insurance premium in a timely manner.		X	

Background

The District offers a variety of core and voluntary benefits to eligible employees and their eligible dependents. Core benefits, and the companies that provide them, are as follows:

- Medical Benefits – The District offers three medical plans through United Healthcare. The Select Basic Plan, Select Plan, and Choice Plan vary by rates, co-pays, deductibles, and out-of-pocket maximums.

- Pharmacy Benefits – Eligible employees may receive pharmacy benefits through Express Scripts.

- Dental Benefits – The District has contracted with Delta Dental for dental benefits.

- Vision Benefits – The District offers vision coverage through Vision Service Plan. Eligible employees may choose between two plans: in-network and out-of-network.

- Board Sponsored Life Insurance Benefits – The District offers eligible employees basic term life insurance through The Hartford. Coverage varies by employee classification.

The District also offers voluntary benefits, which are additional insurance products available for purchase at affordable rates. Voluntary benefits include short-term disability insurance, accident insurance, critical illness insurance, term life insurance, legal insurance, and pet insurance. Employee contributions for benefits are made through employee payroll deductions.

The Benefits Section Is Responsible for Managing Employee Benefits

The Human Resources Department's Benefits section is responsible for assisting District employees with setting-up benefits coverage as new hires and making changes to it during their course of employment. To carry out this responsibility, the Benefits section maintains a control structure to ensure that its activities align and comply with applicable laws and regulatory requirements, District policy, collective bargaining agreements, and other contractual agreements, where applicable.

Benefits section employees carry out their duties as established in procedures designed by section management. They assist District employees in accessing and updating core and voluntary coverage offered by the District. Employees. They are responsible for confirming their benefit coverage selections in the *Employee Self-Service* (ESS) system, administered by the Benefits section. The system is used during the annual open enrollment process, new hire events, employee separation, and mid-year qualifying event changes.[1] ESS is also used to manage voluntary benefits.

In addition to helping employees select and enroll in coverage, the Benefits section is charged with ensuring that each employee and covered dependent is eligible, properly classified and assessed, and withheld the accurate premium. Benefits section employees also approve claims payments to the service organizations that provide the benefits: United Healthcare (UHC), Express Scripts, Delta Dental, Vision Service Plan (VSP), and The Hartford.

A mid-year qualifying event includes marriage, divorce, legal separation, birth of a child, child adoption or placement, ineligible dependent, court ordered qualifying medical child support order (QMCSO), loss of coverage due to change in spousal status, and change in dependent child employment.[1]

Another part of the Benefits section's control structure is in place to manage the service agreements that the District has entered into with the service organizations. The Benefits section is assisted by an independent consultant, AON, Risk Service Northeast, Inc. (AON).   AON negotiates the service agreements with the service organizations and submits quarterly benefit reports to the District's Joint Labor Management Insurance Committee and the Human Resources management team. These reports include a claims analysis along with industry comparisons and trends of similar self-insurers in the market. AON also submits an actuary report detailing claim projections. AON's medical claims and prescriptions projections for 2020 are noted below in Exhibit 1**.** The last three years' Incurred but Not Reported (IBNR) are listed in Exhibit 2.

Exhibit 1 – AON projections

FY2020 Medical/Rx Projections

Certificated	Classified Claims	Total	Certificated	Classified Participation	Average
Medical					
$57,729,381	$39,913,049	$97,642,430	49,016	33,008	41,012
Rx					
$19,946,464	$10,508,353	$30,454,817	48,979	33,029	41,004
$77,675,845	$50,421,402	$128,097,247			

Source: AON, consultant

Exhibit 2 – Annual Claims Payable

Claims Payable (IBNR)	Fiscal Year
$15,433,000	2019
$13,602,000	2018
$10,696,945	2017

Source: *AON, consultant*

Financial Reporting

Financial activity resulting from costs related to core and voluntary benefits is recorded in the **Employee Benefits Self-Insurance Fund** (024) (Self-Insurance Fund). This fund exists to account for and report monies received from other funds as payment for medical, hospitalization, life, dental, and vision insurance. The Self-Insurance Fund is funded through premiums, which are withheld from covered employees as medical deductions and transferred into the Self-Insurance Fund. Covered claims are then paid from the Self-Insurance Fund. The Board of Education's portion of the medical premiums are recorded in the Self-Insurance Fund as "Other Receipts" and charged against the General Fund (001). The District is fully self-funded with no stop loss coverage.

2020 Estimated Cost Compared to 2019 Actual Cost

For FY 2020, the District appropriated approximately $136,000,000 (cash basis) for expected claims, excluding beginning FY 2020 encumbrances. Actual claims for FY 2019 totaled $136,362,072. Budgeted estimated receipts for FY 2020 for the Self-Insurance Fund (024) total $122,180,000. As of February 2, 2020, 64.3% or $78,639,315 had been collected through employee payroll deductions. Where the estimated receipts are evenly collected throughout the period, with less than 70% (approximately five remaining months), the average monthly receipts ($11,234,187) suggest estimated receipts collected to date is reasonable and on track to meet, or most likely exceed, the estimated budgeted receipt, with approximately $56,170,939 remaining to collect. If the 2020 monthly estimated receipts continue at the current pace at year end, the receipts collected will total $134,810,254, which is in-line with the previous year's actual receipts. Exhibit 3, below, breaks down the revised budget (appropriation) to actual expenditures for the Self-Insurance Fund for FY 2020 by cost center. The actual expenditures were $3.29 million below the revised budget. Medical Insurance claims accounted for 92.6% of the fund total expenditures. Since these reported numbers are presented on the cash basis, the IBNR for the year is not included. These numbers are still under audit by the Auditor of State, as part of their annual statutory audit.

Exhibit 3 - **FY 2020 Actual to Revised Budget Expenditures by Cost Center (Cash Basis)**

Cost Center	Budget	Actual	Actual Percentage	Budget to Actual
Medical Insurance	129,742,887	127,352,865	92.6%	2,390,022
Dental Insurance	5,550,703	4,788,329	4.0%	762,374
FSA Employer Contribution	2,455,000	2,392,442	1.8%	62,558
Vision Insurance	912,399	599,481	0.7%	312,918
Life Insurance	951,069	941,585	0.7%	9,484
Wellness Program	484,909	727,703	0.3%	(242,794)
	140,096,967	136,802,404		3,294,563

Results of the Human Resources – Benefits Audit – Issues and Recommendations:

<u>**Issue 1 – The Human Resources Department lacks sufficient governance programs; goals and objectives setting and monitoring; vision setting; strategic planning; and performance measurement. (Risk Rating: High)**</u>

The Superintendent commissioned the Council of the Great City Schools (CGCS) to conduct a review of the District's Human Resources Department's organizational structure, governance structure, and operating processes. The CGCS has conducted over 320 organizational, instructional, management, and operational reviews in over 65 big city school districts over the last 20 years.

The CGCS brings together 76 of nation's largest urban public school systems in a coalition dedicated to the improvement of education for children in the inner cities. The Council and its member school districts work to help our schoolchildren meet the highest standards and become successful and productive members of society.

The CGCS keeps the nation's lawmakers, the media, and the public informed about the progress and problems in big-city schools. The organization does this through legislation, communications, research, and technical assistance.

The organization also helps to build capacity in urban education with programs to boost academic performance and narrow achievement gaps; improve professional development; and strengthen leadership, governance, and management.

The District requested that the CGCS:

- Review, evaluate, and comment on the organization, management, use of technology, training, and operational procedures of the Human Resources Department;

- Identify opportunities to improve existing processes and internal controls within the Department and determine what progress the District had made in implementing the recommendations from the 2001 Human Resources review conducted by the Council; and

- Develop recommendations that would help the Department achieve greater managerial effectiveness and operational efficiency and enhance its strategic value.

The resulting report, entitled *Review of the Human Resources Program of the Columbus City Schools, Spring 2020* (CGCS report), included findings in the areas of leadership and management, organization, and operations. The included recommendations address mission, vision, goals, objectives, policies, and procedures, all elements that are fundamental to successful organizations.

The CGCS's findings and recommendations are not included in this audit report. Those interested in obtaining a copy of the CGCS report should refer all inquiries to the Superintendent's Office. However, OIA has provided consultation and "mitigation hints" to the Human Resources Department to implement the CGCS's recommendations, and we continue to offer assistance when necessary and requested.

Without establishing the proper change management team dynamics and over-arching governance, there is an increased risk that the issues identified in the CGCS report will not be sufficiently mitigated.

Recommendations

1. The Human Resources Department should constitute a change management team (Team) with dedicated members, other alternating members, and consultant(s), where necessary. The Team should consider the findings and recommendations issued in the CGCS report, work to develop mitigation measures, and monitor the implementation and effectiveness of these measures.

2. The Human Resources Department should continue to use the OIA's mitigation hints to implement the CGCS's recommendations.

3. The Human Resources Department should develop governance policies and procedures to guide the work of the Team specifically in the area of the Team members' roles and responsibilities. The Team should have a qualified lead to ensure that all aspects of Team operations are carried out in accordance with the established governance policies and procedures and that work performed meets established benchmarks, milestones, and metrics.

Management Response: CCS HR is formalizing a steering committee to focus on the change management associated with the response to the CGCS audit, recent OIA audits, and department transformation. Internal stakeholders have already been identified and engaged. We're working on external stakeholder engagement. This team will meet monthly and we're hoping to start this important work as we head into next school year.

Implementation Date: October 1, 2021

CCS HR continues to meet with OIA to discuss both the response to the CGCS audit, recent OIA audits, and department transformation. We're creating goals and progress monitoring structures to analyze, address, and evaluate current and future state organizational structure, governance structure, and operating processes.

Utilizing the CGCS audit and recent OIA audit recommendations, every team within CCS HR will have benchmarks, milestones, and metrics. This work will sit on transparent, real-time-updating dashboards accessible to all members of the department and stakeholders. We've purchased Tableau and are creating dashboards now. A major portion of this work is integrating education industry standards and HR standards of measurement, and our first pass will utilize CGCS formulas and measures from the annual CGCS KPI surveys.

Implementation Date: Ongoing 3-5 year implementation schedule; HR will develop a status reporting schedule to communicate progress to OIA and the Audit and Accountability Committee periodically on the transformation progress based on predetermined milestones.

Process Owner: Mira Wright, Chief Human Resource, Michael De Fabbo, Executive Director, Human Resources

Issue 2 – Benefits management has not implemented suggested user consideration controls or monitoring activities to supplement the service provider control deficiencies and/or gaps or continually reviewed the reports for needed control implementation or modification. (Risk Rating: Moderate)

The District uses several service organizations to deliver benefit services (medical, dental, vision, and life) to eligible employees. Each of the service organizations, (United Health Care (UHC), Delta Dental, VSP, Express Scripts,) have an annual review of their control processes conducted by an independent auditor who issues a System and Organization Controls (SOC) report. These reviews are conducted following standards promulgated by the American Institute of Certified Public Accountants and culminate in one of the following three types of reports:

- **SOC 1:** This engagement reports on whether a service organization has effective internal controls in place pertaining to financial reporting in order to protect client data.
- **SOC 2:** This audit assesses internal controls related to information security, including data availability, confidentiality, privacy, and processing integrity.
- **SOC 3:** Similar to a SOC 2 report, this report attests to the suitability of internal security controls without providing any specific descriptions of the organization's systems. Whereas SOC 1 and SOC 2 reports are available to customers who use the provider's services, a SOC 3 report is intended for the general public, allowing potential customers to see that the organization is compliant without revealing any mission-critical or proprietary information about their operations and systems.

SOC reports, regardless of the type, are further differentiated as Type 1 or Type 2. A Type 1 SOC report demonstrates that an organization has the appropriate controls in place for managing risk as of the date the report is issued. A Type 2 SOC report, on the other hand, focuses on how effective those controls are in practice.

The Benefits section has outsourced the following business functions to the previously mentioned service organizations: claims processing, claims adjudication, repository, vendor payments, and part of the enrollment and eligibility verification process.

Upon OIA request, the District requested and received SOC 1, Type 2, reports for each service organization, thus detailing the effectiveness of each organization's internal controls pertaining to financial reporting and the security of client data. OIA

reviewed the most recent SOC reports submitted to the Benefits section, and all identified a variety of deficiencies and gaps with implications for the internal controls that should be in place for a user, such as the District. Specifically, the auditors that generated the SOC reports provided specific guidance for user organizations on how they should be implementing compensating control procedures that can mitigate known service providers' deficiencies and gaps to enhance the effectiveness of the service provider control processes.

The Benefits section did not always obtain SOC reports to implement the user controls recommended. This could enable errors to occur, which could prevent Benefits from meeting its objectives.

Recommendations

The following user controls, originally identified in the SOC reports, should be implemented by the Benefits section:

4. Establish a procedure requiring that any manual entry performed during the enrollment process is documented to evidence the changes, modifications, or edits agreed upon by the authorizing party, management, and analyst performing the operation.

5. Develop procedures to ensure that the Express Scripts executed agreement is on file and a review of the terms and conditions is performed before the effective date; further, consider whether the terms and conditions were applied accurately.

6. Obtain and review the SOC report for each service organization annually to ensure that the suggested user consideration controls and other recommendations are in place or implemented timely and operating as intended; additionally, develop procedures to ensure continued effectiveness of the user consideration controls and document this assurance.

Management Response: The HR Administration is working with IT to establish Personnel Action templates to support the documentation of manual entries. The implementation project began on April 13th and will be completed before the start of the 2021-2022 School Year.

Implementation Date: December 31, 2021

The procedure of ensuring that the Express Scripts executed agreement is on file and a review of the terms and conditions is performed before the effective date will be documented by the HR Administration team prior to the start of the 2021-2022 School Year.

Implementation Date: October 1, 2021

Each year, the HR Administration team will obtain and review the SOC report for each service organization annually to ensure that the suggested user consideration controls

and other recommendations are in place or implemented timely and operating as intended. This process will be documented by the HR Administration team prior to the start of the 2021-2022 School Year.

Implementation Date: October 1, 2021

Process Owner: Courtney Hale, Director, Administration; Hollie Aselage, Benefits Manager

Issue 3 – The Benefits section's process lacked evidence of a control procedure to affirm that claims payments were made timely and accurately. (Risk Rating: Low)

As part of OIA's assessment of the Benefits section's internal controls, we looked at the process in place for authorizing claims payments. Although the Benefits section maintains a summary of claims payments in a spreadsheet, including the invoice claim amount, claim date, and payment for each invoice, OIA found that additional controls were warranted to ensure accuracy.

As part of the clams' payment process, before a claim invoice can be paid, the request for payment must be signed off by the Benefits Manager and Benefits Director indicating the authorization to pay and evidencing that the invoice amount agreed to the claims listing. Although OIA confirmed that the appropriate signatures were present on the request for payment invoices tested during the audit period, there was no evidence that the appropriate steps were taken to verify the Treasurers' timely and accurate payment of the claims invoice. *Refer to* **Exhibit 4** *for the complete Benefits Claims Process Flow.* All claims payment data information is summarized into the spreadsheet for quick, easy reference.

One of the final steps in the claims payment process is payment by the Treasurer's Office. The Benefits analyst is responsible for tracking the claims payment through the Treasurer's Office to ensure the final approved payment is made in the authorized amount and timely. However, evidence to support that this control activity occurred is not recorded in the spreadsheet. Further, there is no entry indicating that the payment was made in the authorized amount or timely.

Without competent evidence, Benefits management cannot assess whether the intended control activities are actually taking place or whether the procedures are achieving the intended objective: the timely and accurate payment of claims.

Exhibit 4 – Benefits Claims Payments Process Flow

CCS Human Resources- Benefits Claims Payment Process Flow
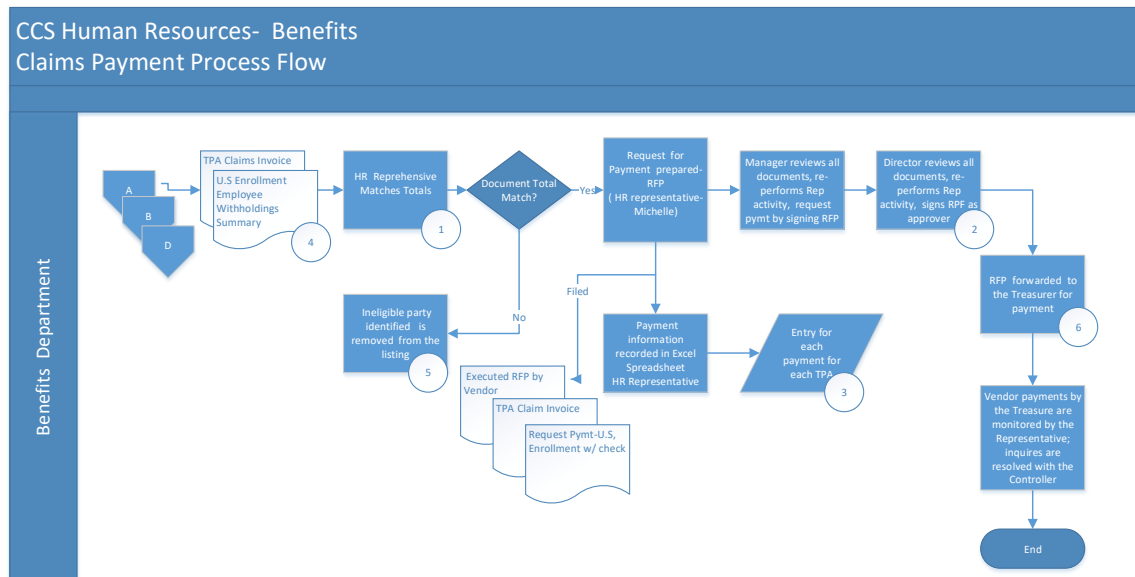
Source: *OIA (enlarge to view)*

__Note__: A, B, and D, above, are flowchart connectors referencing the process flows from the service providers., Due to the proprietary nature of the UHC process information, it is not presented here. The numbered circles are reference marks to further explain the process procedures noted in the associated process box, which are not presented here. The service organizations, process flow feeds into this cycle.

Recommendations

7. Benefits staff should document in the spreadsheet when control procedures are carried out to verify that a claims invoice was paid by the Treasurer's office timely and accurately.

8. Benefits management should periodically review the spreadsheet for its completeness and accuracy.

Management Response: The Treasurer's office began the process of sending payment confirmation statements to the HR Administration team. The team records the date of payment sent in the benefit vendor payment spreadsheet and saves the confirmation statement to the shared drive. This is a weekly process to validate payment success. Executive Director will periodically review the process for consistency, completeness and accuracy.

Process Owner: Courtney Hale, Director, Administration; Hollie Aselage, Benefits Manager

Implementation Date: December 31, 2021

Issue 4 – Benefits error correction process lacks a system of internal control to ensure authorization and accountability for its completeness and accuracy. (Risk Rating: Moderate)

As part of OIA's work in assessing the Benefits section's control environment activities, we looked at what procedures are in place to enhance accountability and identify problem areas timely. This included evaluating a report-review process that Benefits uses to identify potential errors identified by a service organization. Every week, Benefits submits a report called an 834 report to each service organization. The 834 report includes an employee's profile and a benefits options data stream. Each service organization then reviews the report for errors. Any error discovered is included in a feedback report, from UHC, Delta Detail and VSP which details the employee file that contains an error.

The Benefits section's analyst reviews the feedback reports and then begins an investigation to determine the error to correct. Some feedback reports measure the error by severity. The correction is made through a direct upload to the specific service organizations portal. When necessary, corrections are also made to MUNIS.

During OIA's review of the feedback report process, we were unable to identify any system of internal control that would provide assurance in the correction's authorization, accountability, or completeness and accuracy. We did note that the Benefits Manager reviews the subsequent feedback report to ensure that any errors corrected the previous week are not present in the following week's report. Additionally, MUNIS captures, as part of the workflow, any change made by the analyst. However, a process does not exist to associate the change with the feedback report that prompted the change. There is also no documentation of any judgement made by the analyst in their analysis of how to correct *the error.*

Benefits did not identify any functionality within the MUNIS workflow to capture information to facilitate the correction authorization, accountability, or its completeness and accuracy. Further, Benefits does not utilize any personnel actions forms. A personnel action form is an automated process which captures the correction. After the approval the correction is affected in the live environment. This process provides evidence of the correction, who did the correction and the authorization of the correction and its introduction to the live environment

Without a sufficient system of internal controls in place, the Benefits section cannot detect unauthorized entries resulting from the feedback-report process or ensure the completeness and accuracy of information subsequently submitted to the service organizations and recorded in MUNIS.

Audit Recommendations

9. Benefits should coordinate with Tyler Technologies and District IT staff to review the current MUNIS functionality to determine whether there are technology applications that would provide assurance regarding any changes resulting from the feedback-report process.

10. Benefits should establish, implement, and monitor the effectiveness of internal controls that will help to document when the analyst makes a correction; the analyst's investigation activities and result(s); and, where applicable, the bridge between the feedback report and the system correction, noting the authorization and monitoring activities that took place to evaluate the completeness and accuracy of the correction.

Management Response: The HR Administration team will partner with Tyler Technologies and District IT staff to review technology opportunities to provide assurance regarding any changes resulting from the feedback-report process.

The HR Administration is working with IT to establish Personnel Action templates to support the documentation of manual entries. The implementation project began on April 13th and will be completed before the start of the 2021-2022 School Year.

Process Owner: Courtney Hale, Director, Administration; Hollie Aselage, Benefits Manager

Implementation Date: December 31, 2021

Issue 5 – Benefits management could not provide a documented rationale analysis of the section's decision to not maintain stop loss coverage. (Risk Rating: High)

The District is a self-insured organization responsible for all medical, vision, and dental claims resulting from employee benefit coverages offered by the District. The District maintains and manages a Self-Insurance Fund to record all premiums and claims activity. Employees' premiums are recorded in the Self-Insurance Fund as *Charges for Service,* and Board contributions are recorded as *Other Receipts.* All claim payments are recorded as an expenditure when paid.

The Human Resources Department representative, the Treasurer, and a representative from AON (the District's insurance consultant) annually evaluate insurance industry trends and the District's historical claims liability. This information, along with the use of various industry models, helps establish appropriate insurance rates to cover the cost of both anticipated claims and Incurred but Not Reported (IBNR) for the period under evaluation. The established insurance rates consider potential claims that may exceed the current usual and expected claims level, requiring spending the Self-Insurance Fund balance reserves to meet these obligations. Without sufficient Self-Insurance Fund balance reserves, these claims could be catastrophic given that such costs are beyond normal and expected.

When assessing the above claims payment structure, OIA inquired about whether the District has stop-loss insurance coverage. OIA learned that the District does not have stop-loss coverage. The claims payment structure combined with the absence of stop-loss coverage suggest that the District has not "shared" any claims risk but rather accepted all risk. The District could not provide the detailed analysis of the risk accepted; the likelihood, impact, and frequency that such risk events could occur; the determining

factors that resulted in the risk acceptance level; and the governing body's consensus to accept this level of risk.

Stop-loss insurance coverage is a layer of coverage that provides reimbursement to self-insured employers for catastrophic claims exceeding predetermined levels, or the usual and expected claims. This coverage can be purchased by employers who self-fund their employee benefit plan so that they do not have to assume all of the liability for losses arising from an extremely high medical claim. The amount of stop-loss insurance coverage selected demonstrates an organization's acceptable risk level, or the *claims tolerable risk level.*

In addition to limiting the self-insured's risk, stop-loss insurance coverage safeguards against large or catastrophic insurance claims. Maintaining stop-loss coverage would allow the District to benefit from self-funding while limiting the associated risk from a catastrophic single claim and limiting overall claim liability. Without the deliberate assessment of claims risk and the establishment of an acceptable tolerable risk level, the District may inadvertently commit financial resources otherwise earmarked for other purposes to finance claims liability.

<u>**Recommendations**</u>

11. The Human Resources Department representative, the Treasurer, and the AON representative should at least annually, as part of the claims rates determination, perform a claims risk analysis. At a minimum, this analysis should evaluate the claims that may occur and exceed the usual and expected claims activity (the event); the likelihood, impact, and frequency that such risk events could occur; the determining factors that result in the risk acceptance level; and the governing body's consensus to accept this level of risk. All final decisions should be evidenced in documentation to support the claims risk analysis outcome(s) and specifically the potential strain, if any, on General Fund resources and/or its reserves for the final claims tolerable risk level.

12. Ongoing, the governing body, or its designee, should clearly communicate the District's claims risk appetite to assist the process owners in their work to develop a tolerable risk level to guide the claims risk analysis process and specify under what circumstance(s) further guidance should be sought by the process owners.

Management Response: Management will engage AON (or other suitable consultant) at the next annual evaluation of trends and claims liability to conduct a claims risk analysis to ascertain the likelihood, impact, and frequency that actual claims may exceed the expected claims (the basis for rate setting) and a cost/benefit analysis related to the purchase of stop-loss insurance. In addition, management will work with the consultant to identify and quantify the risk level of operating the self-insurance fund with and without stop-loss coverage to include possible General Fund exposure to unanticipated, unusual and unfunded claims experience.

Process Owner: Stanley J Bahorek, Treasurer, Human Resources

Implementation Date: January 1, 2022

<u>**Issue 6 – The current internal control environment could be strengthened with additional procedures to enable Benefits staff to effectively identify ineligible dependents and do so in a timely manner. (Risk Rating: Moderate)**</u>

The Board of Education provides insurance coverage to its employees' and their dependents. For a dependent to qualify for coverage, the employee must provide documentation that meets established criteria. Where applicable, the documentation, such as marriage or birth certificate, child adoption order and child support order must be submitted within 30 days after coverage begins.

The District contracted with HMS Holdings, Inc. (HMS) to conduct a Dependent Eligibility Verification Audit. HMS is a service organization which provides dependent eligibility verification services to the District. This service verifies the dependents listed on the district benefits plans are eligible for coverage   This audit subjects all employees who had a dependent enrolled on their District insurance plan to verify the eligibility of those dependents by submitting documentation that met pre-defined eligibility guidelines. The audit revealed approximately 687 dependents' eligibility documents were not submitted, categorized as "non-responsive" to substantiate their qualification to receive district benefits.

Several attempts were made by HMS, as part of their procedures, to obtain the necessary documentation. If employees could not produce proper documentation by a certain date, the District notified employees that the dependents in question would no longer be eligible to receive benefits. On April 30, 2020, these non-responsive employees had their dependents removed from the District's insurance plan. Insurance premiums are collected 30 days in advance, so any prepaid premiums that had already been collected were refunded to the affected employees.

To prevent future enrollment of ineligible dependents, the Benefits section developed a process referred to as the Monthly Dependent Audit. The process was designed to prevent future dependent verification errors and maintain an active rolling dependent list. The rolling dependent list contains dependents whose eligibility has been verified and those dependents that are still within the 30-day window pending the receipt of eligibility documentation.

The Monthly Dependent Audit begins with a review by the Benefits analyst of dependent data from MUNIS. This manual process is used to identify the following:
- Duplicate dependent listings;
- Missing social security numbers;
- Missing date-of-birth information; and
- Any dependents included in MUNIS but not included on the "rolling dependent list".

To identify this missing or incorrect information, the analyst performs analysis on the MUNIS data downloaded to compare to the rolling dependent list to identify exceptions, The analyst then creates a final audit request listing that is uploaded to each service

organization. The analyst also updates the rolling dependent list with the uploaded audit entries submitted to the service organization marked as pending verification.

The corrections resulting from the identified discrepancies, duplications and missing information are summarized and uploaded to HMS. HMS will then conduct an audit requesting that employees submit qualifying documentation to support the eligibility status of their dependent(s).

OIA identified two potential weaknesses with the dependent audit process: effectiveness and timeliness. With regard to effectiveness, the current control environment may not be set up in a way that can reliably detect errors. First, the process is manual, which is by its nature prone to error. The process also lacks any documented evidence of process authorization, accountability or completeness and accuracy controls, and segregation of duties. In the absence of these controls, it is possible that errors may go undetected. Further, Benefits has concluded that the MUNIS functionality limitations prevent the system from detecting or preventing input errors, duplications, or missing data.

Regarding timeliness, OIA noted that the process is extensive, largely due to the size of the rolling dependent list, which contains approximately 10,000 entries. Having to perform a manual process on such a large dataset could prevent management from the timely detections of exceptions, any incomplete results, and timely correction to eliminate claims paid for qualifying dependents. Not being able to resolve eligibility issues quickly can result in dependents receiving benefits for a longer period of time, placing a financial burden on the District.

Recommendations

13. Benefits management should coordinate with Tyler Technologies and District IT staff to review the current MUNIS functionality to determine whether there are technology applications that would provide assurance regarding the system's ability to support the dependent audit process.

14. Benefits management should develop and implement control procedures to document the analyst conducting the work at each stage of the dependent audit process (MUNIS pulldown, spreadsheet data extractions, V- look-up comparison to rolling file, upload to service organization, and update the rolling file); create a segregation-of-duties among the stages to prevent incompatible duties; perform and document a review of the data and its results for each stage for completeness and accuracy. Additionally, management should review the process periodically for its continued operation and test the rolling dependency list for accuracy. These actions should be documented with evidence of who conducted the review and testing.

Management Response: The HR Administration team will partner with Tyler Technologies and District IT staff to review technology opportunities to provide assurance regarding the system's ability to support the dependent audit process. Conversation will be initiated by the start of the 2021-2022 School Year.

The HR Administration team will partner with Tyler Technologies and District IT staff to review technology opportunities to provide assurance regarding the system's ability to support the dependent audit process. Conversation will be initiated by the start of the 2021-2022 School Year. To ensure the accuracy of information, the department will begin multi-tiered oversight to validate report findings. This process will be in place by the start of the 2021-2022 School Year.

Process Owner: Courtney Hale, Director, Administration; Hollie Aselage, Benefits Manager

Implementation Date: December 31, 2021

Issue 7 - The current internal control environment could be strengthened to enable Benefits staff to identify ineligible employees being charged the grandfathered rate for their insurance premium in a timely manner. (Risk Rating: Moderate)

The Board of Education has granted employees continuously employed before a certain date (for CEA and Administrators, May 31, 2009; OAPSE, April 30, 2010) medical insurance coverage at a reduced rate. This "grandfathered rate" is available to these employees as well as their eligible dependents.

During open enrollment, District employees access the MUNIS Employee Self-Service (ESS) system to select their insurance plan and coverage for the coming calendar year. As employees log into ESS, normally an employee's options are limited to those for which they qualify. During 2019 open enrollment, however, some employees were able to enroll in an insurance plan at the grandfathered rate, even though they were not eligible for this rate. MUNIS application prevents coding parameters to filter those employees who would qualify from those unqualified for grandfathered rates. Consequently, the grandfather option was available in ESS for all employees to select as their available insurance plan

Once this error was detected, the Benefits section created a manual process to review each employee that selected the grandfathered rate to confirm their eligibility. Once confirmed they were added to a grandfathered list maintained by Benefits and the grandfather rate applied. Those employees' determined not to qualify for grandfather rate their profile was revised to exclude their ESS selection and the coverage was not granted.

In addition to reviewing employees for eligibility, the Benefits section sought to determine whether the software could have been configured differently. However, the assessment did not identify any functionality within MUNIS by which to set a qualifying and determining parameters into MUNIS that could have prevented the unqualified employees from selecting the grandfather option.

Without having a systematic process in place to monitor the eligibility of employees who are able to select the grandfathered rate and by using a manual process to review the completeness and accuracy of input data into MUNIS, the risk increases that employees

could receive the grandfathered rate in error. When ineligible employees pay a reduced premium rate, it places an undue burden on the District to pay more for those premiums.

Recommendations

15. Benefits management should coordinate with Tyler Technologies and District IT staff to review the current MUNIS functionality and determine whether there are technology applications that will prevent unqualified employees from being able to make insurance selections that have a grandfathered rate.

16. Benefits management should establish and monitor the effectiveness of internal controls that will help them identify when an ineligible employee selects the grandfathered rate insurance premium in a timely manner. These controls could include applying electronic procedures to identify possible errors and evaluating the rolling grandfathered list to confirm completeness and accuracy.

Management Response: The HR Administration team will partner with Tyler Technologies and District IT staff to review technology opportunities to provide assurance regarding the system's ability to validate grandfathered rate eligibility and support the ongoing grandfather process. Conversation will be initiated by the start of the 2021-2022 School Year.

The HR Administration team has created a process for the grandfathered rates by setting up system restrictions to exclude grandfathered rates from being visible and available to non-grandfathered employees. Personnel status parameters for those employees who qualified for grandfather rate was established in MUNIS. This was implemented after the discovery of the error in 2019 with the help of IT and Tyler Technologies. The rates were only visible and available to these determined employees.

Thereafter, an ongoing manual system was implemented to review and approve employees requesting grandfather rates, due to a 'life event', before given the option to select the grandfather rate in MUNS.

Employees who meet the eligibility requirement and experience a "life event" will be added to the personnel status parameter as a qualified employee to receive grandfather rate after review and approval.

The HR Administration team will partner with Tyler Technologies and District IT staff to review technology opportunities to incorporate the grandfather rate determining and qualifying information into MUNIS.

Process Owner: Courtney Hale, Director, Administration; Hollie Aselage, Benefits Manager

Implementation Date: December 31, 2021

Audit Objectives

The objectives of the audit were to determine whether:

- The Benefits section has written business objectives and whether a periodic risk analysis is performed and documented;
- Appropriate governance exists over the selected control processes;
- Sufficient internal controls are in place and operating as management intends;
- Appropriate monitoring activity is in place and operating to enhance accountability and identify problem areas timely; and
- The applicable laws, regulations, and contractual obligations significant to the process cycles under review were complied with and to assess the degree of compliance.
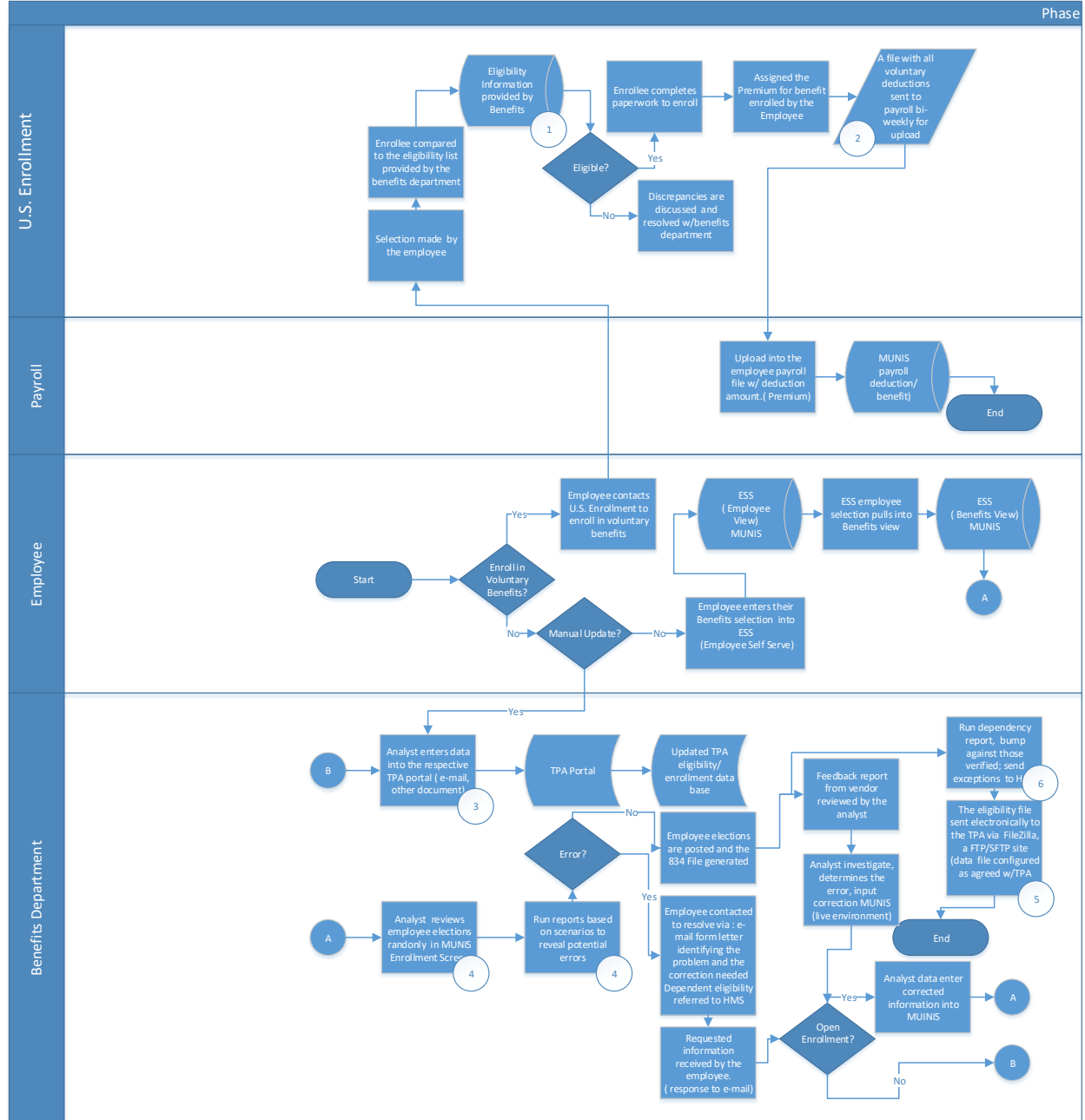
Audit Scope

OIA established the scope of the audit to include a review of basic operational aspects of the processes and evaluation of internal control environments as they relate to the noted objectives. The period of time for the audit included all HR Employee Benefits internal control processes and control environment and its related transactional data from June 1, 2019, through January 31, 2020 and the "feedback" reports for January 2021 implement control procedures.

Methodologies

To accomplish the audit objectives, OIA performed the following tasks as they relate to those objectives:

- Reviewed various relevant authoritative literature;
- Reviewed relevant District Board of Education (BOE) policies and administrative guidelines;
- Reviewed relevant Auditor of State polices and compliance requirements, guidance, and best practices;
- Reviewed prior relevant OIA audits;
- Interviewed selected Human Resources Department management and staff;
- Documented process flows;
- Reviewed System and Organization Controls (SOC) reports for service organizations providing District benefits; and
- Reviewed and considered the Committee on Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework Principles.

Appendix A

Source: OIA (enlarge to view)

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