

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

A Follow-up Audit to the *Internal Audit Report*: Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Controls



Assignment 10332-A
August 14, 2018

Conclusion

This is a follow-up audit to the *Internal Audit Report: Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Controls* issued on February 22, 2017. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in Fall 2018.

Internal Audit Division evaluated one recommendation that has been "implemented". Therefore, follow-up to the 2015 In-Lieu Medical Coverage Payments' Internal Controls Audit is complete.

The initial audit included improvements in the following areas:

- Non-California Residency Confirmation
- Payment Uploading Automation
- Utilization of Automation Clearing House (ACH) payments
- Monitoring of data entry
- Ineligibility of California residing retirees

Appendix A provides description of the recommendation's implementation status.

Appendix B provides program background.

Appendix C provides the audit background, objective, scope and methodology.

We appreciate the assistance of Employee Services Agency (ESA) staff. Their cooperation and participation led to the successful conclusion of this audit.

Signature on file

Rebecca Haggerty 
Internal Audit Manager
August 14, 2018

Attachments:

Appendix A, STATUS OF AUDIT RECOMMENDATION as of June 2018

Appendix B, Program Background

Appendix C, Audit Information

Management's Response

Internal Audit Report: Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Controls

**APPENDIX A
STATUS OF AUDIT RECOMMENDATION AS OF JUNE 2018**

This Appendix summarizes the status of one recommendation made in the *Internal Audit Report: Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Control*. It identifies that the recommendation is implemented.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
1		Non-California Residency Confirmation		
1.1	3	On the existing annual confirmation of eligibility form, ESA should insert a required retiree, or designee, signature confirming out of state residency.	Implemented	In FY18, ESA enhanced its annual confirmation letter to include certification of residency. In FY18, ESA – Benefits obtained confirmation from approximately 96% (693 of 721) of retirees. 688 participants provided the requested information and five respondents were no longer eligible for the payment-in-lieu program.

Appendix B Program Background

In October 1999, the Board of Supervisors authorized a healthcare benefits subsidy program to retired County employees living outside of California. The Board approved this program due to the Kaiser Foundation's coverage changes adversely impacting those non-California resident County retirees. The County's ESA administers this program.

These retirees receive quarterly payments equal to the lowest cost "under 65 single rates"; this is the lowest payment to a retiree for their medical coverage. To qualify and remain eligible, a participant must be a non-California resident and annually provide evidence of medical coverage. Eligibility terminates upon the participant's death or re-establishing California residency.

The responsibility for enrollment and processing of reimbursement payments is divided between two divisions within ESA (ESA-Benefits and ESA-Fiscal) and the Controller-Treasurer Department. ESA-Benefits is responsible for enrolling retirees, making changes to retiree status, and inputting data into PeopleSoft. ESA-Benefits provides an approved payment listing to ESA-Fiscal. ESA-Fiscal creates payment files, reconciles the data from PeopleSoft to the payment file, and provides the payment files to the Controller-Treasurer Department for upload into the County's central accounting system (SAP) through a payment interface process.

Appendix C

Audit Information

Audit Background	The Institute of Internal Auditors' professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. As such, this audit was performed to meet these requirements.
Objective	The audit objective was to evaluate the implementation status of the recommendations made in <i>Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Controls</i> issued on February 22, 2017.
Scope	A sample of recommendations were evaluated. The scope included follow-up on one of three recommendations made in the initial audit categorized as Priority 3.
Methodology	The audit concluded in June 2018 and was conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> . A follow-up audit evaluates the progress made on recommendations and included identifying whether the implementation is properly substantiated. During a follow-up audit, Internal Audit Division does not change the initial findings, recommendations, or priority levels assigned. This follow-up report was reviewed by the department and their written response is attached.

County of Santa Clara

Employee Services Agency

County Government Center, East Wing
70 West Hedding Street, 8th Floor
San Jose, California 95110-1705



DATE: August 3, 2018

TO: Rebecca Haggerty, Internal Audit Manager

FROM: John Mills, Deputy County Executive *John L. Mills*

SUBJECT: Management Response to a Follow-up Audit by the County's Internal Audit Division of the In-Lieu of Medical Payment's Internal Controls

The Employee Services Agency (ESA) appreciated the opportunity to review and respond to the Internal Audit Division's (IAD) Follow-up Audit to the Internal Audit Report: Audit of the 2015 In-Lieu Medical Coverage Payments' Internal Controls.

ESA concurs with IAD's observations related to the status of the audit's recommendation.

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT-Internal Audit Division

INTERNAL AUDIT REPORT

Audit of the 2015 In-Lieu of Medical Coverage Payments'
Internal Controls



Assignment 10332
February 22, 2017

Conclusion The controls over the payments are good. It is anticipated that this report will be submitted to the Board of Supervisor’s Finance and Government Operations Committee in the winter 2017.

To further strengthen internal controls, we identified improvements in the areas listed below:

- Confirmation of out-of-state residency
- Automation of the interface
- Utilization of Automated Clearing House (ACH)
- Monitoring of data entry
- Ineligibility of California residing retirees

The report includes three recommendations. Based on qualitative factors, all the recommendations were considered as Priority Three¹. Also included are two observations for consideration.

The Employee Services Agency (ESA) has agreed to fully implement the recommendations by April 30, 2018. Subsequently, the Internal Audit Division plans to perform a follow-up audit.

Program Background In October 1999, the Board of Supervisors authorized a healthcare benefits subsidy program to retired County employees living outside of California. The Board approved this program due to the Kaiser Foundation’s coverage changes adversely impacting those non-California resident County retirees. The County’s ESA administers this program.

These retirees receive quarterly payments equal to the lowest cost “under 65 single rate;” this is the lowest payment to a retiree for their medical coverage. The FY15 monthly rate was \$682.63 and the FY16 monthly rate was \$675.67. To qualify and remain eligible, a participant must be a non-California resident and annually provide evidence of medical coverage. Eligibility terminates upon the participant’s death or re-establishing California residency.

The responsibility for enrollment and processing of reimbursement payments is divided between two divisions within ESA (ESA-Benefits and ESA-Fiscal) and the Controller-Treasurer Department. ESA-Benefits is responsible for enrolling retirees, making changes to retiree status, and inputting data into PeopleSoft. ESA-Benefits provides an approved payment listing to ESA-Fiscal. ESA-Fiscal creates payment files in an Excel spreadsheet, compares and reconciles the data from PeopleSoft to the payment file, and provides an Excel spreadsheet payment file to the Controller-Treasurer Department for upload into the County’s finance and accounting system. Payments under this program are approximately \$3-\$4 million annually.

<u>Fiscal Year</u>	<u>Payment Count</u>	<u>Amount Paid</u>	<u>Average Payment</u>
2013	1,916	3,317,399	1,731
2014	2,063	3,863,797	1,873
2015	2,284	4,620,568	2,023
2016	1,799	3,618,227	2,011

- Audit Background** This audit was initiated from the annual approved audit work plan. The County's financial and accounting system allows departments to process payments and other transactions within other systems and subsequently uploads those payments into the County's financial and accounting system. This is commonly known as the payment interface feature. This audit sought to address internal controls existing for interfaced payments initiated by the ESA for its Medical In-Lieu program.
- Objective** The objective of this audit was to test the controls over In-Lieu of Medical Coverage payment transactions uploaded from the benefits administration system (aka PeopleSoft) to the financial and accounting system (aka SAP) for disbursement.
- Scope and Methodology** This audit encompassed payments for In-Lieu of Medical Coverage made from April 2015 through September 2015.

The audit methodology included reviewing internal controls and analyzing their effectiveness in addressing business risks. For two quarters, total payments were tested for management review, appropriate reconciliation and correctly recorded amount. For a sample of participants, testing was performed of retiree eligibility, coverage periods, documentation completion, processing timeliness, appropriate amounts, and accurate data entry. Both new and existing recipients were included. Additional topics reviewed were retroactive payments and processing of returned warrants.

This audit was performed in accordance with the Internal Audit Annual Work Plan, concluded in December 2016, and conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

A draft copy of the report was discussed with the ESA prior to issuance of the final report. The department's formal response is attached to this report.

ESA provides a valuable benefit to County retirees by making timely payment of the in lieu of medical coverage benefit. We appreciate this and are grateful for ESA's assistance in completing this audit.

Signature on File

Rebecca Haggerty, Internal Audit Manager 
February 22, 2017
Attachment: Management's Response

Findings and Recommendations

Findings

Non-California Residency Confirmation

Presently, the program participants submit addresses upon enrollment. Also, annually participants submit address information only if the address has changed. These are the sources used by the ESA-Benefits Division to confirm participant residency. Because residency outside of California is mandatory to receive reimbursement, an annual pro-active confirmation of out-of-state residency by the retiree would provide additional assurance that the residency requirement has been met.

Payment Uploading Automation

The Medical In-Lieu interface uploading procedure involves numerous manual tasks to prepare quarterly payments' data and submitting it to the accounting system manually for upload.

Automating this process should improve efficiency and reduce manual handling of paper documents and spreadsheets.

Automated Clearing House (ACH) Payments Utilization

Program participants may elect to receive their payments by County warrant (paper check) or electronically through the ACH system. Payments through the ACH system reduce manual handling and are least costly per transaction. ACH payments also reduce the risk of lost payments because information is transmitted electronically instead of through the US Mail and of erroneous payments because a valid bank account must receive the payment.

Recommendations

1.1 On the existing annual confirmation of eligibility form, ESA should insert a required retiree, or designee, signature confirming out-of-state residency.

(Priority 3) [Expected 04/30/18]

2.1 ESA should replace the current manual processing with an automated interface between the human resources system (PeopleSoft) and the finance and accounting system (SAP).

(Priority 3) [Expected 12/31/17]

3.1 ESA should strongly encourage program participants to receive payments electronically using the ACH system.

(Priority 3) [Expected 04/30/18]

Other Observations

Observation Number	Description	Suggestion
OO1	<p><u>Data Updating in the Human Resource System (PeopleSoft)</u></p> <p>We noted some delayed system updating and data entry errors. None of these adversely impacted the ability to timely and accurately pay the participants. Accurate data is important for systems integrity and efficiency and should be emphasized. Monitoring of data entry can be achieved through additional supervision and review, even if done on a spot check basis.</p>	<p>ESA should consider increasing monitoring of data entered into the human resource system (PeopleSoft) for accuracy.</p>
OO2	<p><u>California-residing retirees ineligible to receive in lieu payments</u></p> <p>This program only serves retirees living outside of California. There may be some California-residing retirees living in areas not serviced by County medical plans. Since they live in California, these retirees are not eligible for in-lieu payments.</p>	<p>ESA should review the geographical boundary of state of California as a determinant of eligibility for the In-Lieu program.</p>

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Priority One recommendations cover issues of federal, state and local laws, regulations, ordinances and the County Charter. In addition, this priority level can include recommendations that would or could result in significant (\$250,000 or more) increases in revenues or decreases in expenditures. This priority level also can include significant weaknesses in internal controls. Lastly, recommendations made to make significant changes in federal, state, or local policy through amendments to existing laws, regulations and policies would also be included.

Priority Two recommendations can result in moderate (\$50,000 to \$250,000) increases in revenues or decreases in expenditures or can make changes in local policy through amendments to existing County ordinances and policies and procedures. Priority Two recommendations can also include revisions to existing departmental or program policies and procedures that could result in improved service delivery, increased operations efficiency, greater program effectiveness, improved control over the safeguarding of assets or the accuracy and completeness of financial data.

Priority Three recommendations included in this level would address program related policies and procedures that would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

County of Santa Clara

Employee Services Agency

County Government Center, East Wing
70 West Hedding Street, 8th Floor
San Jose, California 95110



DATE: March 16, 2017

TO: Rebecca Haggerty, Internal Audit Manager
Controller-Treasurer Department

FROM: Rey Guillen, Employee Benefits Director
Employee Benefits Department, ESA 

SUBJECT: Departmental Response to Internal Audit Report:
Audit of the 2015 In-Lieu of Medical Coverage Payments'
Internal Controls

Recommendation 1.1

On the existing annual confirmation of eligibility form, ESA should insert a required retiree, or designee, signature confirming out-of-state residency. (Priority 3) [Expected 04/30/18]

ESA Response – Recommendation 1.1

Concur. ESA agrees with this recommendation. ESA currently sends an annual letter to all participants of the Payment in Lieu program and requires an annual confirmation of enrollment in a medical plan. Adding a signature line for the retiree to affirm that he/she continues to permanently reside outside of California would be relatively simple.

Recommendation 2.1

ESA should replace the current manual processing with an automated interface between the human resources system (PeopleSoft) and the finance and accounting system (SAP). (Priority 3) [Expected 12/31/17]

ESA Response – Recommendation 2.1

Concur. ESA agrees to consider this recommendation. In partnership with the Finance Agency and the Information Services Department, ESA has begun to embark on a collaborative to develop an overall strategic planning, multi-departmental, and multi-disciplinary Road Map to address system wide opportunities and challenges. This unified and strategic Road Map for the

employee life cycle will enable the County to plan and implement integrated and cohesive technology and process improvements over the next several years.

Recommendation 3.1

ESA should strongly encourage program participants to receive payments electronically using the ACH system (Priority 3) [Expected 04/30/18]

ESA Response – Recommendation 3.1

Concur. ESA agrees with this recommendation and believes it already follows this practice. 440 of the program's 647 participants (68%) receive their quarterly reimbursements via ACH. ESA will continue to recommend ACH reimbursements to retirees.

Observation 001

ESA should consider increasing monitoring of data entered into the human resources system (PeopleSoft) for accuracy.

ESA Response 001

Concur. ESA agrees with this observation. ESA will begin having the Human Resources Support Supervisors with the Employee Benefits Department randomly select a number of these transactions to review each month to check for accuracy.

Observation 002

ESA should review the geographical boundary of state of California as a determinant of eligibility for the In-Lieu program.

ESA Response 002

We concur that, at the direction of FGOC, ESA will bring this item and the associated fiscal impacts to the Board for consideration.

This program was created by the Board of Supervisors in 1999 for all retirees regardless of age because of the Kaiser disruption to the enrollees; and since then, the assumptions which were presented to the Board might no longer be relevant or applicable. As this is a non-negotiated benefits, extending this benefit to retirees living within California would have a negative impact to the County General Fund. ESA records show that there are currently 91 County retirees who reside in California and might eligible for In-Lieu payments because they waive enrollment in a County plan and they live outside the Kaiser and VHP coverage area. This means an additional \$770,000 without additional increase in services.

Likewise, pulling back on the payment-in-lieu benefits from the retirees living outside California might or might not have a financial impact on the County General Fund; depending on their future plan choice or enrollment choice. However, eliminating In-Lieu payments for the retirees currently reside out of California could negatively impact their fixed income (by paying out-of-pocket premium to Health Net) or unable to purchase a more affordable individual plan at their resident State.