



Council Auditor's Office

Follow-Up on Compensation and Benefits Division Audit

Report #787A

Released on: May 28, 2020

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our follow-up review of our past report #787, Compensation and Benefits Division Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We reviewed our recommendations and the auditees' responses from the original audit report. We sent a follow-up letter to the Administration on April 9, 2019 inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses provided. Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Cleared	Remaining Issues
Internal Control Weaknesses	2	2	0
Findings	9	4	5
Opportunities for Improvement	5	3	2
Total	16	9	7

The following is a brief summary of the remaining issues with responses from Diane Moser, Director of Employee Services, that we received on April 20, 2020.

Finding 1 – 2 - Eligibility Issues with Dependents Age 26 – 30

During the original audit, we found various issues with the process of verifying eligibility of insurance coverage for dependents after they reach age 26 through the calendar year in which they reach age 30. We recommended the Compensation and Benefits Division modify the report used to identify birthday dates for such dependents, so that they are flagged ahead of time to give enough time for the staff to process and send out letters and eligibility forms to employees before the

dependents' birthdays. We also recommended implementing procedures to ensure that eligibility letters are sent out in a timely manner and ineligible dependents are timely removed from the City's group health plan.

During the follow-up testing, we tested documentation for ten such dependents. We asked the Compensation and Benefits Division to provide the eligibility forms received by the division and copies of the letters sent out that asked employees to fill out and sign the eligibility forms. We found that two out of ten (or 20%) eligibility forms were not processed properly. In particular, the letters for those dependents were not sent out timely (20 and 16 days after the dependent's birthday) which resulted in benefits not being canceled timely when no signed eligibility form was returned for either of them (benefits were canceled 113 and 107 days after their birthdays).

Employee Services Response to the Follow-Up of Finding 1-2

Agree Disagree Partially Agree

Since the follow-up testing, the supervisor of the benefit representatives is reviewing these each pay period to ensure they are processed correctly and in a timely manner.

Opportunity for Improvement 1 – 2 - Improving Life Events and Weekly Hours Reports

During the original audit, we found that the design of certain reports used by the division could be improved. In particular, the Life Events report that showed various changes in personnel included many items that did not require any action by the division. Thus, we recommended to either update the current report or create a second version of the report that would only show items that needed action. Also, there was a report on weekly hours that showed hours worked per employee per week which was used to help ensure that health insurance is offered to all eligible employees as required by the Affordable Care Act. This report double counted some of the hours (e.g., holiday overtime hours that were already included in the regular hours were added to the total). We recommended to review the design of the report and update it, so work hours would be properly presented.

During the follow up testing, we found that the division chose not to modify the Life Events report, but we also found no issues with how the report was used (all changes were addressed). Therefore, we cleared this issue. However, we also found no changes were made to the design of the weekly hours report, so the hours worked per week are sometimes overstated. This reduces the reliability of the report and means that any potential exceptions flagged are going to be discounted or time will be spent researching false positives.

Employee Services Response to the Follow-Up of Opportunity for Improvement 1-2

Agree Disagree Partially Agree

Employee Services will work with ITD to make changes to this report with an effective date of August 1, 2020.

Finding 2 – 1 - Issues with Collecting Premiums for Retired Employees

During the original audit, we found some issues with collecting premiums from retired employees who chose to keep their City health insurance. There were four retirees who were health plan participants but from whom the City failed to collect premiums. There were also two retirees who were health plan members but had passed away a few years prior. We recommended that the Compensation and Benefits Division create an exception report that would flag situations where a deduction was missing for a retiree and prepare a periodic reconciliation for retirees who pay manually.

During the follow-up testing we were informed a report was created that would catch retirees that did not have a deduction. However, when we tested to verify whether the control was operating properly, we found four retirees in the plan who passed away anywhere between August 10, 2016 and May 4, 2018 but remained in the plan as of August 16, 2019. Either there needs to be an update to the report or a process needs to be added to identify these types of issues.

Employee Services Response to the Follow-Up of Finding 2-1

Agree Disagree Partially Agree

We worked with ITD to see whether there could be a system change to identify retirees who pass away. Those employees were not feeding into Oracle via the Jaxpension interface. It appears that this fix is not feasible due to system limitations. ITD conferred with the Pension Office in an effort to provide more accurate reporting which we are now using.

Finding 2 – 2 - Inaccurate Taxation of Benefits Associated with Dependents Aged 26 – 30

During the original audit, we found that the value of the health coverage provided by the City for dependents after the calendar year in which they turn 26 was not included in the taxable income for the employees and that the employee’s contributions related to the coverage of these dependents were made on a pre-tax basis. We recommended to include employer contributions in the taxable income and make employee contributions related to the coverage of these dependents post-tax to be consistent with the Internal Revenue Code.

During the follow up testing, we found that employee contributions related to dependents in the calendar year after they reach 26 years old were deducted on a post-tax basis unless dependents met requirements of section 152 of the Internal Revenue Code as a “qualifying child” for which the employee had to attest that the child qualified. For those employees that did not have a “qualifying child” the employer contributions related to the “non-qualifying child” coverage were to be separately listed as imputed income earnings on the paystubs.

However, there were issues with the new process. We found that a switch from pre-tax to post-tax basis was made in a manner where the entire amount of the health deduction was moved to post-tax instead of the portion related to the “non-qualifying child” coverage being post-tax and the portion related to the coverage of the employee (and spouse, if applicable) still being pre-tax. Additionally, the employer contributions were not included in the calculation of the taxable income reported in Box 1 of Form W-2 as they should have been.

Employee Services Response to the Follow-Up of Finding 2-2

Agree Disagree Partially Agree

We were provided updated legal guidance for this process and have made the necessary changes to correct this issue.

Finding 2 – 5 - Issues with Employer Portion of the Health Insurance Premium

During the original audit, we found various issues with the employer portion of the health premium when we tested premiums collected. In general, the employer portion of the premium was automatically not collected every pay period when the employee portion was not collected. However, when retroactive changes were made to employee coverage, no adjustments were made to the employer portion. In a different scenario, if a refund was made to an employee because the City charged for health insurance coverage after coverage was canceled due to termination, no refund was made to the employer. We recommended to change procedures to ensure that when corrections are made to the employee’s contributions, the employer’s contributions are adjusted as well.

During the follow up testing, we found that some changes were made to the process. In particular, the employer portion of the premium was automatically collected even when the employee portion of the premium was not collected. We also found that adjustments to employer premiums were not made when changes to employee premiums were made (e.g., change in policy type that required an increased contribution). The process needs to be corrected to ensure employer contributions are adjusted when needed.

Employee Services Response to the Follow-Up of Finding 2-5

Agree Disagree Partially Agree

We have setup a new process with payroll to ensure the employer contributions are adjusted when needed.

Opportunity for Improvement 2 – 1 - Forcing Retirees to Apply for Medicare Part B

During the original audit, we found that the Compensation and Benefits Division did not require retirees to apply for Medicare Part B at the eligible age so that Medicare could be used as the primary insurance. We recommended the Compensation and Benefits Division consider forcing retirees to apply for Medicare Part B and, if they qualify, the City could offer a secondary insurance plan.

During the follow up testing, we found that no action was taken, and eligible retirees are still not required to apply for Medicare Part B. Based on discussions, a legal opinion was sought from the Office of General Counsel on the matter. Although the State of Florida and some other municipalities do this, the legal opinion stated that the City could not force retirees to apply for Medicare Part B. However, it did state that the City could incentivize retirees to apply for Medicare Part B (e.g. offer

discounted supplementary insurance). We recommend that the City look at incentivizing if it would save the program money.

Employee Services Response to the Follow-Up of Opportunity for Improvement 2-1

Agree Disagree Partially Agree

Employee Services will explore incentivizing employees.

Supplemental Finding 1 - Overpaying Administrative Fees

During the original audit, we found that the Compensation and Benefits Division overpaid the third party plan administrator \$1,711 in administrative fees associated with 45 individuals whose insurance had already been cancelled. We recommended the Compensation and Benefits Division review and improve the process used to calculate and process the administrative fee payments.

During the audit follow-up testing, we found that fees were paid inaccurately for three out of eight months tested which resulted in a total net overpayment of \$851.92.

Employee Services Response to the Follow-Up of Supplemental Finding 1

Agree Disagree Partially Agree

This was an error made by a benefits employee processing the Florida Blue bill. She has been counseled about the errors and these payments are now being reviewed for accuracy by another employee prior to submission.

We would like to thank the Compensation and Benefits Division for their cooperation in conducting this follow-up review.

Sincerely,

Kyle S. Billy

Kyle S. Billy, CPA
Council Auditor