



Human Resources Audit of Employee Benefits Maricopa County Internal Audit June 2019

Why This Audit Is Important

The Human Resources (HR) Employee Health Benefits program provides eligible employees and their dependents access to affordable options for health benefits. The program relies on several contracted vendors to provide services, including access to medical provider networks, claim processing, actuarial services, and employee premium amount recommendations.

To reduce the cost associated with providing benefits, the County uses a self-insured model and assumes the financial risk for paying claims. To manage this risk, the County maintains an Employee Benefits Trust Fund to collect benefit premiums, pay benefit obligations, and to maintain sufficient funding for claim fluctuations. During fiscal year 2018, the trust paid claims totaling \$141.2 million and had sufficient funding to cover the recommended reserve of \$12.7 million for claim fluctuation as of June 30, 2018.

We performed this audit primarily to determine if adequate procedures were in place for providing complete and accurate data to the outside vendors, and to ensure the amount held in reserve for premium deficiencies was reasonably calculated and aligns with industry best practices.

All key findings were adequately addressed prior to the release of this report.

Key Findings

- A single person was responsible for preparing, entering, and reconciling premium deduction changes without a secondary review and approval process.
- Adequate processes were in place for providing complete and accurate data to an outside actuarial service. The processes were not documented.
- Vendors that performed critical benefits functions on behalf of the County provided internal control audit reports to HR; however, there was no procedure in place to review the reports for issues.
- The methods and calculations used to establish the reserve for premium deficiencies were reasonable and aligned to industry best practices.

What We Audited

Below is a summary of work performed and findings. Corresponding recommendations and responses start on page 3. The responses were approved by Jan Plank, Director of Human Resources, on June 12, 2019. More detailed observations and recommendations were communicated to management throughout the process.

Premium Deductions

Background – HR manages employee benefits using a benefits software system, then deducts premiums from employee paychecks through the County’s payroll system. Due to the timing of changes between the two systems and other complex issues, there may be differences that need to be reconciled. HR reconciles the differences each pay period.

Observations – We reviewed reconciliations completed during fiscal year 2019 and found the reconciliations were complete and included all necessary information. However, we found that written policies and procedures describing the reconciliation process, including management reviews, had not been established. Written policies and procedures are needed to help ensure controls are consistently applied (**Recommendation 1**).

During interviews, we learned that the same employee prepared the reconciliations and entered changes into the payroll system without a secondary review and approval process in place. Properly separated responsibilities and management reviews are needed to help prevent an opportunity for error or fraud from going undetected (**Recommendation 1**).

Providing Complete and Accurate Data

Background – HR obtains, consolidates, and provides data to an outside actuary for an annual reserve analysis. Information provided by the actuary is used to support HR financial and business decisions.

Observations – We audited the controls for ensuring that data provided to the actuary was complete and accurate. The data is manually maintained, calculated, and updated using an Excel spreadsheet. We found adequate processes were in place for providing complete and accurate data; however, the processes were not formally documented to help ensure consistency (**Recommendation 2**). Additionally, there were inadequate spreadsheet controls (e.g., security and access) to reduce the risk of unauthorized changes to key data (**Recommendation 3**).

Vendor Monitoring

Background – HR uses outside vendors to perform critical benefit functions, including determining eligibility, calculating benefit premium amounts, facilitating payroll deductions, and processing claims. The transfer of these responsibilities can expose the County to additional risk if a vendor does not have a strong system of controls and procedures. Each year, the vendors provide a Service Organization Controls (SOC) audit report that describes information regarding the strengths and weaknesses of the vendor’s internal controls.

Observations – We performed audit procedures to determine if HR reviewed the SOC audit reports to ensure that the vendors had adequate internal controls over critical functions. We concluded that the reports were not reviewed and there were no documented policies and procedures for reviewing SOC audit reports (**Recommendation 4**).

For vendors providing key benefit services, we reviewed the most current SOC audit reports, generally covering October 2017 through September 2018, and found that the vendors’

controls appeared to be working effectively. Some vendors' internal controls were dependent on controls within the County (complimentary controls). For the reports reviewed, we found that the County had adequate complimentary controls in place.

Other Comments – After reviewing the SOC audit reports, we provided HR with our input, along with a template to assist HR with future reviews of the reports.

Premium Deficiency Reserve

Background – The County hires an actuary to assist in establishing a premium deficiency reserve. This reserve is an additional amount needed when the expected future cost of claims exceeds the premiums to be collected. The information provided by the actuary is used in the annual budgeting process.

Observations – We hired a subject matter professional (SMP) to review the methods and calculations used to establish the premium deficiency reserve and, overall, the SMP found they were reasonable and aligned to industry best practices and the County's strategy for funding benefit programs.

Additional Information

This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing. This report is intended primarily for the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

Recommendations and HR's Responses

Recommendations	Responses
<p>1 Develop and implement policies and/or procedures for employee premium deduction reconciliations, including proper separation of duties.</p>	<p>Concur – completed Policy is complete, and staff have been trained. Completion Date: 6/12/2019</p>
<p>2 Develop and document policies and procedures related to providing key information to the County's actuary and other third-parties.</p>	<p>Concur – completed This policy is complete and will be used upon the next request from the actuary for data in August 2019. Completion Date: 6/12/2019</p>

Recommendations	Responses
<p>3 Develop and implement controls over manually maintained data (e.g., spreadsheets) to address the risk of data deletion, addition, and modification prior to providing to the actuary and other third parties.</p>	<p>Concur – completed</p> <p>This policy is complete and will be used upon the next request from the actuary for data in August 2019.</p> <p>Completion Date: 6/12/2019</p>
<p>4 Establish written policies and procedures for obtaining SOC audit reports and performing and documenting appropriate reviews.</p>	<p>Concur – completed</p> <p>This policy is complete and will be used during the next external audit period ending no later than January 2020 and annually thereafter.</p> <p>Completion Date: 6/12/2019</p>