



7/31/2017

Auditor-Controller  
Internal Audit  
CAO-HR Benefits Audit, IA2016-02

Final Report

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**EXECUTIVE SUMMARY**

Internal Audit (IA) completed the County Administrative Office (CAO) - Human Resources Benefits (HR) Audit on July 31, 2017, to assess the HR departments internal controls surrounding the administration of employee benefits for the fiscal year (FY) 2015-16.

Based on the results of the audit tests performed (deductions and contributions totaling \$195,414,846), IA identified the county would potentially have an additional benefit trust unresolved discrepancy up-to \$150,271, for the FY 2015-16. Any unresolved discrepancy will be in addition to the already unresolved discrepancies of prior years through FY11-12, totaling \$815,866.

Also, IA did identify several process weaknesses within HR benefits. Areas identified include:

- Lack of HR reconciliations of benefit enrollments between SunGard OneSolution (OS) and San Joaquin Valley Insurance Administrator (SJVIA) system (Admin Direct) for almost a year.
- General ledger benefit trust accounts continue to be unreconciled.
- HR collection of employee benefit receivables (arrear) is inconsistent.
- Employee receivables (arrear) outstanding balances improper identification in the county financial system.
- Untimely delay in submitting claims for employee receivables (arrear) to the Treasurer Office of Revenue for collections.
- Coordination issues with the State of California Employment Development Department State Disability Insurance (SDI) program.
- Incomplete employee benefit files for audited period.
  - Lack of enrollment forms.
  - Incomplete dependent documentation.
  - Incomplete plan changes on enrollment forms.
  - Incomplete benefit forms.
  - Incomplete leave tracking.
- Strengthen internal controls.
- Additional automation is necessary to avoid manual and duplicative entries.

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**BACKGROUND**

**General**

Overall a benefit cafeteria plan allows employees to select among a variety of nontaxable benefits and cash. This choice takes the form of employees purchasing benefits, such as health insurance, with pre-tax dollars, allowing employees to have more take-home pay. Section 125 of the Internal Revenue Code (IRC) governs all cafeteria plans. While all cafeteria plans must meet certain requirements of Section 125, not all cafeteria plans are the same. The simplest form of cafeteria plan is a premium only plan, which is the type of cafeteria plan that allows employees to pay for their share of premiums with pre-tax dollars.

A cafeteria plan must satisfy several conditions. Regulations are clear that any failure to operate by the terms of the plan or the requirements of Section 125 will disqualify the plan (it will not be a cafeteria plan) and result in gross income to participants. In other words, if the cafeteria plan fails to follow the rules anyone participating in the plan will lose the tax benefits he or she would have otherwise received.

A cafeteria plan is a written plan instrument. The rules are clear that cafeteria plans, and any amendments to them, must be set out in writing. A written plan may or may not be an Employee Retirement Income Security Act of 1974 (ERISA) plan document, depending on the benefit options. For example, a cafeteria plan with a health care spending act (i.e., FSA) will be subject to ERISA, while other cafeteria plans won't be.

In general, ERISA does not cover retirement plans established or maintained by government entities. However, whether subject to ERISA or not, a cafeteria plan document must describe plan terms, election rules, and plan administration procedures. The IRS would examine the plan document in the event of an audit.

Per regulations, a cafeteria plan document must contain the following:

- A specific description of each of the benefits available;
- The plan rules governing participation;
- The procedures governing employees' elections, including period elections and when the elections can be made and when the elections are effective. Also, the election is irrevocable except when a change of status applies;
- The way employer contributions are made;
- The maximum amount of employer contributions available to any employee;
- The effective plan year;
- If applicable, the rule for the use of non-elective and elective paid time off; and
- If applicable, the grace period, or distributions from an FSA to the employees' health savings accounts, and the plan's provisions complying with the specific requirements of those benefits.

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Historically, if no plan exists IRS has characterized pre-tax deductions from income in the absence of a cafeteria plan document as impermissible, and the regulations make this abundantly clear. Without a plan document, the IRS takes the position that the employer has under-withheld the taxes for participating employees. Such under-withholding could lead to PY tax underpayment and IRS penalties. The rules state the following:

- if there is no cafeteria plan document,
- if the document does not satisfy each of the plan document requirements, or
- if the plan fails to operate by the terms of the plan or Section 125 rules,

then the plan is not a cafeteria plan, and employee elections between taxable and nontaxable benefits may result in gross income to the employee.

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**Audit Specific**

The HR department is responsible for the overall administration of the county’s employee health insurance plans. HR currently has seven full-time personnel; two personnel are responsible for the administration of employee benefits programs. Of the two benefits personnel, one oversees the health benefits function, while the other performs the day-to-day processing of health benefit requests and changes, as well as the task of reconciling the benefit liability general ledger accounts.

Effective June 30, 2015, the county withdrew from the joint powers agreement with the Tri-County Schools Insurance Group to become a member of the San Joaquin Valley Insurance Authority (SJVIA) for health, dental and vision insurance coverage. For the county to be a member of the SJVIA, the Board of Supervisors (BOS) approved a business associate agreement with Gallagher Benefits Services, the broker for the SJVIA, on March 22, 2016. The effective date of coverage with SJVIA was July 1, 2015, through April 30, 2017. As of May 1, 2017, the county became a member of the CSAC Excess Insurance Authority (EIA) health program. Employee deductions and department contributions are processed one month in advance of paying the premiums to the provider.

For benefited employees, the county offers several medical plans:

SJVIA (Audit Period)	CSAC EIA (Present)
SJVIA PPO \$0 DEDUCTIBLE	CSAC EIA PPO \$0 DEDUCTIBLE
SJVIA PPO \$250 DEDUCTIBLE	CSAC EIA PPO \$250 DEDUCTIBLE
SJVIA PPO \$500 DEDUCTIBLE	CSAC EIA PPO \$500 DEDUCTIBLE
SJVIA PPO \$1000 DEDUCTIBLE	CSAC EIA PPO \$1000 DEDUCTIBLE
SJVIA HDPPPO \$3000 DEDUCTIBLE	CSAC EIA PPO \$1500 DEDUCTIBLE
KAISER HIGH BENEFIT PLAN	CSAC EIA PPO \$1500 DEDUCTIBLE
KAISER LOW BENEFIT PLAN	CSAC EIA HDPPPO \$3000 DEDUCTIBLE
	KAISER CSAC HIGH HMO BENEFITS
	KAISER CSAC LOW HMO BENEFITS

**General Ledger Benefits Trust Account Reconciliations**

HR is responsible for reconciling the provider billings against the payroll (PY) bi-weekly deductions and contributions, as well as, the general ledger benefits trust. However, these benefit fund reconciliations have been an ongoing issue for many years. Lack of reconciliations has resulted in external financial statement audit findings dating back to 1996.

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**Benefit Trust History**

On August 28, 2012, the previous HR director presented agenda item #21 to the BOS for informational purposes only.

The staff report presented to the BOS highlighted the following items:

- Beginning in FY1996-97 and every year since the county's independent auditor has recommended a reconciliation of the benefits liability (trust) accounts on a regular basis and that any discrepancies are to be researched and resolved promptly;
- In 2008, an independent CPA firm was hired to perform the (benefit) fund reconciliations;
- In 2009, the CPA firm advised the CAO that it was unable to complete the reconciliations;
- In 2011, the CAO assigned an extra-help accountant (an annuitant) to reconcile the fund;
- The accountant discovered the collection of premiums from employees on unpaid leave of absences (LOA) and in charging departments for the employer portion of the premiums was significantly delinquent;
- Based on consultation with county council it was determined that the unpaid premiums could legally be collected from employees for unpaid premiums only for the last four years;
- Benefit personnel started collections via a variety of methods; PY, over-the-counter payments, and the office of revenue collection;
- Benefit personnel also began working with the county's insurance carrier to recover some of the uncollected premiums for the years exceeding the four-year window;
- Benefit personnel also stated the department portion of the premiums for employees on unpaid LOA had been charged for FY 2010-11; and
- FY2011-12 was being kept current by the new benefits manager hired in March 2012.

Included in the staff report HR stated the following information:

- The fund shortage for the benefits liability accounts totals \$815,866;
- Based on assumed collections the remaining shortage would be \$792,835;
- Based on HR's analysis of four years of activity, allocation of the departments' share of the shortage is 87.18%, and the employees' share is 12.82%;
- The employee portion of unresolved fund shortage \$104,585 results in lost revenue and a claim is being filed with the county's insurance carrier to recover that amount;
- The department's portion not previously charged is not a new expense. It is an expense budgeted in prior year, but not charged;
- Based on a reasonable allocation methodology \$546,827 will be allocated to the general fund, and \$246,008 will be allocated to the non-general fund departments;
- Benefits manager will continue monitoring the payments received for prior year unpaid LOA's until payments are received or determined to be uncollectible;

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- The SunGard system will automatically charge department premiums for active employees whether the employee has income or not; and
- The SunGard system will track any unpaid employee premiums, expediting collection of unpaid employee premiums.

In July of 2016, the CAO's office planned to present a report to BOS to charge various departments the unreconciled health liability expenses totaling approximately \$711,552. Allocation of these charges would have applied against the current year salaries and benefits expenses. Presentation to the BOS is pending further review.

### **One Solution Human Resources and Payroll Modules**

As of January 1, 2015, the county implemented the OS HR and PY modules. All benefits were set up to process via OS. At the time of hire, during open enrollment, or when approved status changes occur HR assigns the employee health benefits deduction and employer contributions in the OS HR module, based on employee's elected benefits. The OS HR benefits module automatically updates the OS PY module with the assigned deductions and contributions, along with the beginning and ending effective coverage dates. The Auditor-Controller's (A-C) PY personnel is responsible for processing PY and issuing payments for most of the county benefits processed via PY. However, HR is responsible for reconciliation of monthly invoices and the benefit trust accounts.

### **Employee Online**

In March 2016, the county implemented the Employee Online (EO) module. EO is a web-based system designed to provide employees with access to records and the ability to add or modify personal information. However, the benefits portion was not activated.



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**OBJECTIVE, SCOPE, AND METHODOLOGY**

To determine whether the HR department had adequate controls over benefit administration during the FY 2015-16, to ensure deductions collected from employees and contributions charged to the departments were made appropriately.

IA tests included:

- A review of medical insurance deductions and contributions, to ensure that premiums are processed accurately for eligible active employees by applicable labor agreements, laws and regulations.
- A review of the roles and responsibilities of the internal administration of the state disability insurance (SDI) program to determine if controls are adequate to ensure compliance with county policies, procedures, and any applicable state rules/regulations.

IA conducted interviews, evaluated processes, and identified populations to perform substantive tests of records. Audit Command Language (ACL) software, a data extraction and analysis tool designed specifically for auditors, was used to facilitate data mining techniques to identify and analyze total populations and transactions. Using ACL and Excel, queries were designed and performed to identify related populations for detailed testing. IA traced applicable transactions to employee benefit enrollment folders for review. Specific account details and system reports were utilized throughout the audit to satisfy the audit objectives.

Using ACL, IA extracted from OS employee medical deductions and contributions processed by PY for the period June 2015 through May 2016. IA compared the totals of these transactions to HR benefit excel spreadsheets provided to the A-C's office and IA.

The HR benefits provided excel spreadsheets for medical benefits collected and paid for June 2015 through May 2016 to the A-C's staff early 2016. IA combined and totaled these spreadsheets to compare to the populations extracted directly from OS PY module.

The HR benefits spreadsheet identified 940 employees for which PY deductions and contributions processed totaled \$11,466,612 against \$11,459,557 premiums paid. IA selected a sample of 248 employees with deductions and contributions totaling \$2,515,236 in which the deductions and contributions did not match the premiums paid SJVIA for the additional review.

Department management is responsible for establishing and maintaining a system of internal controls to comply with approved policies and procedures adequately. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance county assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed by management's authorization and recorded properly.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected timely. Also, the projection of any evaluation of a system into

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future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management with independent and objective analyses, recommendations, and information concerning activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although IA exercised due professional care in the performance of the audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Other minor findings, not included in this report, have been communicated to management, and if applicable, corrected during the audit process.

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**AUDIT RESULTS, RECOMMENDATIONS and MANANAGMENT RESPONSES**

**Lack of Reconciliation of Provider Monthly Health Benefit Invoices**

Condition

For the FY15-16 health benefit transactions, when the county transferred from the TCSIG insurance group to the SJVIA insurance group, IA identified contributions and deductions that were not processed correctly for 197 employees out of 940. These errors created over and under contributions and deductions for the employees and the departments. Also, for some employees and departments, the errors continued for months before benefits personnel made the necessary correction.

No of months to discover and correct discrepancies	No of employees whose deductions or contributions were over or under processed	Total deductions and contributions processed by PY	Percentage of sampled population
0	743	9,601,942	84%
1 – 2 months	7	103146	1%
3 - 6 months	105	915,904	8%
6.5 – 12 months	63	590,131	5%
12.5 – 24 months	29	358,635	3%
Totals	940	\$11,466,612	100%

With the A-C’s implementation of the OS PY module on January 1, 2015, HR benefits personnel could begin processing employee and department benefit premiums in the OS system. PY processes employee health contributions and deductions in the month before being invoiced by the provider. Reports were designed to aid benefit personnel in reconciling department contributions and employee deductions processed via the PY module against the health providers monthly invoice.

Benefits personnel continued to request payment of monthly health benefit invoices from the A-C’s office even without a reconciliation of transactions processed via the PY module.

Cause

While IA acknowledges HR was short one benefit personnel for some months; benefits personnel did not utilize the tools provided to ensure health contributions and deductions were set-up and processed correctly through PY.

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Criteria

Best practices suggest an organization creates a standard reconciliation procedure. Good internal controls require reconciliation of invoices. Reconciling invoices is a highly cyclical process and often require the same information with each payment. Health premium invoices represent a large expense to an organization which creates the need for a strong reconciliation process. One direct benefit of reconciliation of benefit invoices is detecting discrepancies and adjusting timely.

Effect

Overcharging or undercharging employees for benefit premiums can have a large financial impact on the employee and create an environment of low employee morale. In any organization, people are the most important resource. They are the engine that drives productivity and results, and therefore their sense of morale and motivation will impact the organization's success. Also overcharging or undercharging a department benefit premiums causes unpredictable or unreliable financial reports for department use.

Overall, errors and irregularities will continue to occur and not be detected promptly.

Recommendation

IA recommends the HR Director create a formal procedure to identify and resolve all unreconciled transactions. The procedure should establish acceptable timelines for reconciliations and corrections of errors or irregularities.

Management Response

Concur. The current premium deduction and collection procedure lends itself to the types of errors that are easily detectable and resolved if the reconciliation is done properly. There has never been sufficient oversight of the monthly reconciliation. Accounting for a fund this size should always be done timely. Efforts to collect unpaid money from months or even years prior is at its best time-consuming and its worst impossible. The money that is under collected is often lost forever. Beginning January 1, 2018, the following changes will be implemented to ensure best business practices are being followed, and the monthly reconciliation is managed appropriately.

- The County will not pay full premiums for employees that are on unpaid leaves of absence.
- Employees will no longer receive a refund of any premiums paid when they go out of service. If a premium is paid, the benefits will be continued as scheduled for any period the premium covers.
- A timely monthly reconciliation will be done by an Accountant II that is assigned to HR.
- HR will establish written procedures, formalizing the reconciliation processes.
- HR, A-C and IT will put forth a recommendation for a new integrated system to automate the interface between payroll and employee profile management.
- The County will no longer coordinate SDI.

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A detailed explanation of all the changes to current County business practices is outlined later in this report.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31,2018

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**Unreconciled Balances in General Ledger Benefit Trust Accounts**

Condition

During the audit, IA discovered benefit personnel had not performed reconciliations to the various general ledger (GL) benefit trust accounts until approximately 2017. While benefits personnel are in the process of trying to reconcile the benefit trust accounts for the last several years, the process has been evolving and continues to result in unreconciled balances. These unreconciled balances have the potential of adding to an unresolved reconciliation issue presented in the BOS in 2012.

HR benefits personnel submitted data to IA on March 20, 2017, of which IA summarized the medical benefits accounts as follows:

Current GL Account	FY	GL Balance FYE	Unreconciled difference between Payment vs. Invoices (+over/-under)
Medical 25180	15-16	(809,305.17)	<b>(46,758.02)</b>
Medical 25180	14-15	(762,547.15)	102,270.81
Medical 25180	13-14	(1,545,075.55)	72,980.20
Medical 25180	12-13	(1,418,833.23)	66,229.31
Medical 25180	11-12	(1,285,840.02)	11,988.81

IA compiled the following FY ending GL data:

Current GL Account	FY	GL Balance FYE	Medical Invoice Paid after FY end	Unreconciled difference between Payment vs. Invoices (+over/-under)
Medical 25180	15-16	(809,305.17)	959,576.58	<b>150,271.41</b>
Medical 25180	14-15	(762,547.15)	995,814.15	233,267.00
Medical 25180	13-14	(1,545,075.55)	1,062,688.00	(482,387.55)
Medical 25180	12-13	(1,418,833.23)	965,553.00	(453,280.23)
Medical 25180	11-12	(1,285,840.02)	882,679.00	(403,161.02)

While HR benefits personnel identified (\$46,758.02) as the unreconciled amount for FY15-16, IA believes the amount is closer to \$150,271.41, the general ledger account balance after the medical invoice is applied. The difference between HR and IA represents a nearly \$200,000 balance.

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Cause

Common reasons for discrepancies that impact the reconciliation:

- Timing
  - New hire notification of benefits elections. By statute, the employee has 30 days from the beginning of their coverage to submit election form. Per the SC rules governing employee compensation, benefits, and working conditions, employees may enroll himself/herself and his/her dependents in their choice of one of the county-sponsored plans. New hires benefits, if selected, will be effective on the first of the first full month of employment and forms must be submitted within thirty-one (31) days of becoming eligible for coverage.
  - Qualifying events. By statute, the employee has 30 days from the beginning of their coverage to submit election form. An employee may change their health coverage during the year if they experience a “qualifying event” – marriage, divorce or legal separation, the birth of child, adoption, promotion to a benefited position, loss of coverage from the spouse’s plan, etc.
  - Terminations.
- Benefit data entry errors or external provider system errors.
- Over/under collection of employee’s portion of benefit deductions (i.e., the employee is in inactive status).
- Unable to obtain the old HR/PY Infinium system for PY transactions before January 1, 2015, needed.
- Incorrect employee plan options set up in HR/PY module will cause incorrect employee deductions and department contributions.

Criteria

A general ledger accounts reconciliation is an underappreciated yet critical internal control to help ensure an organization’s financial integrity. Weaknesses and inefficiencies in the reconciliation process often lead to mistakes on our financial statements. Best practices suggest account reconciliations should be complete, accurate, reviewed and approved, and support the appropriate accounting principles.

Effect

An unreconciled balance continues to add to the already unreconciled balance in the general ledger benefit trust accounts from 2012.

Recommendation 1

IA recommends the HR Director work with the A-C to establish a reconciliation process to meet the needs of the HR and the A-C office, as well as the requirements for payment to be processed through the A-C’s office.

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Recommendation 2

IA recommends the HR Director work with the Information Technology (IT) department to obtain, in electronic format, the documentation needed to complete the benefits trust account reconciliations back to 2012. The IT Deputy Director confirmed in an email dated July 14, 2017; the data should be available back to 1993.

Management Response

Concur. The audit report recommends that HR create a formal procedure to identify and resolve all unreconciled historical transactions. It should also include timelines for corrections of errors and irregularities. It also recommends that HR work with IT to reconcile the benefits trust account going back to 2012. While the information and data should be available, the HR department is not currently equipped to take on that task. It is and has been a daunting task to research and resolve each transaction and it may be impossible to reconcile the previous years' fund balances to a zero-dollar discrepancy. A lack of trained staff compounded with suboptimal business practices and other operational considerations impede HR's ability to complete that task. However, HR will continue to work with the A-C and IT department to implement a feasible resolution if one can be determined.

The Director of HR and the Auditor have collaborated and discussed the need to hire an Accountant II to share with the two departments. While salary and benefits account for 46% of the County's overall budget, historically, HR either had an Accounting Technician I or no one at all to perform the benefits reconciliation. Adequate staffing along with an efficient reconciliation process that will meet the needs of HR and the A-C is a priority for both departments. We put together a collective recommendation for the Board to consider approving an Accountant II position to be assigned to the HR department. The item was approved on consent on November 14, 2017, after going to the committee on November 9, 2017. The position is funded by both HR and A-C with services to the Library and Museum, also. The employee will have office space in HR, but for budget and other non-human resources assignments, the accountant will be considered an A-C employee. There has never been a position that is dedicated to the reconciliation of the benefits trust account even though it accounts for the largest portion of the County's budget. Having a person that does not possess an accounting background or is only partially funded to do accounting while also doing benefits administration has contributed to the lack of proper fund management. If a person had been dedicated to this task previously, better business practices would've been instituted in prior years to avoid the deficiency getting to the point where it currently stands.



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Until the Accountant II position is filled and the new employee is trained the Director of HR requested assistance for the A-C assist with the current reconciliations. The A-C staff will identify the differences in a monthly reconciliation and the HR benefit personnel will make the necessary adjustments to the differences promptly to help prevent increasing the unreconciled balances.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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**Inconsistency in the Collections of Employee Benefit Receivables (Arrears)**

Condition

Employee benefit receivables (arrears) is due to an employee receiving little or no paid time off during a leave of absence and therefore does not have enough income to cover the employee PY deductions for the benefits they are enrolled.

During the audit, IA identified inconsistencies in the collection of employee benefit receivables (arrear) payments. In some cases, employees on a leave of absence paid the portion of their insurance premiums directly to HR, while other employees made no payments of their insurance premiums until they returned to work.

Cause

HR does not consistently apply the Sutter County Rules Governing employee Compensation, Benefits, and Working Conditions, rule 14.1.B., Health Insurance Premiums.

Criteria

Section 125 requirements for cafeteria plans include a specific description of benefits and the coverage period; participation limited to eligible employees, (normally) requires a 12-month plan year; employees can't pay for a benefit in one year and expect to use in the following year; etc. However, when FMLA interacts with Section 125, the rules become complicated because some options can apply. In one example an employer can allow the employee to continue coverage through the leave and permit some ways to pay for that coverage – pay as you go, pre-pay or catch up contributions when the employee returns to work. Also, each plan needs to pass three test elements: Employment requirement; entry requirements; and nondiscrimination. For the nondiscrimination test, the plan must ensure it does not discriminate in practice.

Also, per Sutter County Rules Governing Employee Compensation, Benefits, and Working Conditions, section 14.1.B, employees must pay their portion of any insurance premiums to HR before the first day of the month for which the employee wishes to be covered by the county insurance plans.

Effect

A violation of the county rules causes the inconsistent application of pre-tax PY health benefits between employees. An employee who pays their insurance premium over the counter does not receive a pre-tax PY benefit because PY does not process the payment. However, an employee who delays paying their insurance premium until they return to work will continue to get the benefit of a pre-tax PY deduction even though they haven't paid.

IRS may consider our current process a failure to operate by the terms of the plan and failing to meet Section 125 requirements can have serious consequences. The IRS could even disqualify

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the plan, and if this happens anyone participating in the plan could lose the tax benefits, he or she would have otherwise received.

Also, additional issues arise for HR and PY when an employee owes the county for premiums that cross over PY calendar years. All prior or future year premiums must be processed as after-tax deductions, creating costly additional work.

Recommendation

IA recommends the HR Director develop a procedure to mitigate the inconsistent application and enforce HR’s collection of employee premiums when employees are on unpaid leave by the first day of the month the employee wishes to remain on the county insurance plan or HR proceeds with the termination of coverage.

Management Response

Concur. Upon inquiry, there was no explanation why the County adopted this practice. But the County should no longer pay the monthly premium for an employee in an unpaid status and will also realize cost savings from not having to make collection attempts or payment arrangements once the employee returns to work. To give an example, suppose an employee’s monthly premium for family coverage is \$1,000.00. The employee should pay \$250 out of pocket while the County contributes \$750. If the employee is in a paid status, the contribution would be automatically taken out of their paycheck. In 12 months’ time, the total premium paid is \$12,000.00. The employee should have paid \$3,000.00 (12 x \$250), and the County should have paid \$9,000.00 (12 x \$750.00). Collecting premiums in real time and remitting them to the provider a month in advance is a best business practice.

Let’s suppose that same employee goes into an unpaid status while on a leave of absence. The employee still has a total monthly premium due of \$1,000.00 for benefit continuation. Under the County’s current practice, the employee contributes nothing while they are out and the County assumes the entire cost as illustrated below:

*An employee on unpaid leave with premiums paid by Sutter County with current practice:*

Annual Premium	Employee Cost	Employee Payment	County Cost	County Payment	Employee Balance Due
\$12,000.00	(\$3,000.00)	\$0	(\$9,000.00)	<b>(\$12,000.00)</b>	<b>(\$3,000.00)</b>

When the employee returns to work, they are billed for the \$3,000.00 of unpaid premiums and are expected to pay their arrears as well as their current premium payments. Rather than continue to find ways to accommodate an ill-advised business practice, HR wants to address the cause of the problem and change the practice completely. If the County discontinues its practice of paying the entire premium for employees on leaves of absence and only pays its portion, it will save the

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\$3,000.00 it “floats” to employees, as well as, the \$9,000 it pays for the County portion of the premium.

*An employee on unpaid leave with best business practices:*

<b>Annual Premium</b>	<b>Employee Cost</b>	<b>Employee Payment</b>	<b>County Cost</b>	<b>County Payment</b>	<b>Employee Balance Due</b>
\$12,000.00	(\$3,000.00)	\$3,000.00	(\$9,000.00)	\$9,000.00	\$0

Given that the County employs almost 1,000 full-time employees and makes varying amounts of contributions for all levels of benefits, a monthly balance due can quickly compound for employees in an unpaid status. It’s critical for all parties involved that premium payments are made timely and from the proper source. By adopting a better business practice, HR and A-C staff will not have to coordinate a collection of \$3,000.00 that may or may not be recoverable. The means by how an employee pays the portion of their premium while they are on leave is not the responsibility of the County. The County is responsible for timely billing and notification of the premium due to continue benefits and to remit the payment to the carrier. If the County does not receive the premium payment after a timely bill is sent, the benefits should be terminated.

The same procedure that goes into effect on January 1, 2018, to address the reconciliation of premiums will also address the problem with uncollected arrears. Premiums will be collected in a pre-paid manner to continue coverage while employees are in a paid status. Any employee on a leave of absence that goes into an unpaid status will be required to pay as you go for their coverage. If a timely benefit premium is not received before the current paid coverage runs out (normally 30 days), the benefits will be terminated. Under no circumstances will the County pay the employee portion of the benefit premium to place the employee in arrears. This change will alleviate the need for any collection upon the employee’s return to work or any default if the employee goes out of service.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: Completed, January 26, 2018

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**Employee Receivable (Arrears) Not Recorded in Financial System**

Condition

During the audit, IA identified employee receivables (arrears) for unpaid benefit premiums historically are improperly recorded in the county financial system.

During the PY processing, OS was set up to charge the employer portion of the benefit contributions each pay period for all active employees, whether the employee has income or not. Also, the county paid for SunGard (now called Superion) to provide a consultant to assist PY in setting up an arrears tracking report for the HR benefits personnel. This report was designed to capture any missed or short employee deductions for HR benefits personnel to use in collecting payment from employees. HR benefit personnel have the access needed to update the arrears tracking report by recording the arrears payments collected via “over-the-counter” or through PY. By updating the arrears report, HR can determine what an employee owes the county for missed benefit deductions. This process was established to expedite the collection of employee arrears by HR.

However, after discussions with the HR benefits manager, IA determined the HR benefits personnel continues to track employees on leave manually on an Excel spreadsheet. This spreadsheet includes all activity during the leave and when the employee returns to work. The benefits manager also stated that she does not use the PY arrears report. Instead, when an employee returns to work, she runs the various PY contribution, deduction, income reports to determine how many PY deductions the employee missed or had only a partial health deduction because of insufficient income. She also identifies any premium payments paid by the employee over-the-counter to HR while the employee is on leave. The HR benefits personnel then creates a Benefit Calc. spreadsheet for the missed premiums and reviews with the employee. After the review, HR benefits personnel sets up the additional premiums to deduct via PY until the employee has repaid all “arrears” payments.

Cause

Standard historical practice.

Criteria

The State Accounting Standards and Procedures for Counties, states a governmental accounting system must:

- make it possible to present fairly, and with full disclosure, the financial position of the organization;
- the results of financial operations of the governmental unit must be in conformity with Generally Accepted Accounting Principles (GAAP), and

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- to determine and demonstrate compliance with finance-related legal and contractual provisions.

Compliance with GAAP assures uniformity of financial reporting and a reasonable degree of comparability between state and local government financial reports.

Effect

Employee receivables (arrear) are reflected as overpayments and part of the unreconciled balances in the respective liability accounts within the county's financial system. However, an employee receivable is simply the amount owed to the county for employee benefits the county has paid on behalf of the employee. This amount is convertible to cash on a future date.

Employee receivables are a current asset on the balance sheet with a possible allowance for uncollectible receivables. Best practices include staying on top of all your receivables, including employee receivables. Managing the employee receivables (arrear) is accomplished by managements' review of an employee receivable (arrear) age analysis. The aging report segregates outstanding debt into categories of whether the debt is current or uncollected for 30, 60, 90 or greater than 90 days.

Recommendation

IA recommends the HR director work with the A-C to develop an employee receivable program that will include not only employee benefit arrear but all employee receivables. The program will standardize the employee receivable collection process and help ensure the receivables are reported appropriately on the county's financial statement.

Management Response

Concur. In the interest of fairness to employees, the County's first course of action will be to not put the employees in a situation where arrear are created. Employees do not sign any promissory note or promise to pay for the money the County pays out to continue their benefits. Going into arrear is unilaterally decided on the part of the County without explanation or discretion to decline the coverage on the part of the employee. As noted above, employees will no longer go into arrear for benefits premiums. The timely billing of premiums and continuation or termination of benefits will address this issue. The manual tracking that has historically been done and not entered into an electronic tracking system will be addressed by automating the tracking system.

The lack of accurate recordkeeping is further complicated by the lack of sufficient interface between the benefits enrollment system and the employee profile management system. When employees enroll online, there is still a manual component for dependents and other clerical processing that must be done by HR staff. This can contribute to errors in the record. Since July 2017, the Director of HR and the AC have worked collaboratively with the IT Department to have vendors come on site to demonstrate some of the human capital management (HCM) and HR

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Information Systems (HRIS) systems that are available on the market. We have also worked with our current service provider to see what upgrades are available to the existing system and the time frames involved. We are in the end stages of our discovery, and then we will collectively move forward to make a recommendation to the CAO to replace, upgrade or purchase a new system to assist with automating several of our manual tasks. This will give us the ability to have better reconciliation and reporting from start to finish. From the time employee is hired and enrolls in his or her benefits all the way through the deductions of the monthly contributions, a new system will also allow us to appropriately manage the accounting and send out timely notifications and billings.

However, until a determination is made regarding a system, HR will work with the A-C to develop a county-wide employee receivable program to ensure employee receivables are capture and recorded appropriately.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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**Treasurer Office of Revenue Collections (ORC) of Terminated Employee Receivables (Arrears)**

Condition

During the audit, IA identified an unreasonable delay in HR benefit personnel attempting to collect a debt from employees who have terminated their employment with the county. Though most of the debt identified below was related to debt outstanding before FY11-12, several of the more recent attempts was one year after the last missed deduction.

Unfortunately, this delay also creates a delay when submitting documentation to ORC for collection. On July 13, 2017, the Treasurer-Tax Collector provided a listing of 25 terminated employees HR submitted to ORC for collections totaling \$30,679. Of which, 16 terminated employees have remaining balances totaling \$6,583.

Employee	Original Amount Submitted to ORC	First Date of Debt	Last Date of Debt	HR Collection Memo Date	Date Submitted to ORC
1	\$198	9/19/08	11/14/08	1/30/12	5/7/12
2	\$340	10/5/07 1/8/10	11/16/07 1/22/10	1/30/12	5/7/12
3	\$98	10/5/07	7/25/08	1/30/12	5/7/12
4	\$206	6/15/07	1/25/08	1/30/12	5/7/12
5	\$1,290	3/21/08	12/26/08	1/30/12	5/7/12
6	\$118	10/16/09	1/22/10	1/30/12	5/7/12
7	\$348	2/20/09 10/16/09	2/20/09 10/16/09	1/30/12	5/7/12
8	\$117	10/02/15	10/30/15	9/19/16	11/7/16
9	\$154	11/14/08	1/23/09	Feb 2012	3/30/12
10	\$427	8/5/11	1/20/12	No HR Memo	3/30/12
11	\$2162	5/2/08	7/25/08	Feb 2012	3/30/12
12	\$279	8/14/15	11/20/15	9/19/16	11/07/16
13	\$776	8/24/07	11/25/09	1/30/12	5/7/12
14	\$96	6/13/08	8/22/08	Feb 2012	3/30/12
15	\$341	9/19/08	10/17/08	1/13/12	5/5/12
16	\$599	1/27/17	2/24/17	4/24/17	6/5/17



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Cause

Lack of standard procedure for the collection of employee debt has led to inconsistent handling of terminated employee debt.

Criteria

Best business practices suggest current receivables are likely to be collectible. However, the longer a debt remains unpaid, the greater the probability that the amount will never be collected. Statistically speaking, this correlation means the longer a debt is outstanding, the lower the rate and amount of collection will be.

Effect

While ORC has a variety of tools for collecting this outstanding debt, the delay in submitting these claims to ORC severely hinders ORC's ability to collect this debt. The longer you wait to collect a debt the harder it is to collect. Research has shown that approximately 90% of outstanding debt older than 12 months is uncollectible.

Recommendation

IA recommends the HR Director develop a standard operating procedure for an employee benefit collection process. This procedure should identify the timeline for each step, from benefit personnel collection of the debt through submittal to ORC for the collection of the debt.

Management Responses

Concur. As noted previously, employees will no longer go into arrears for several months at a time. The corrective action to address this issue and the need for the ORC to perform collection at all for benefit premiums will be eliminated with the changes identified for the Employee Receivables (arrears) issue noted above. The implementation of a program that would allow for the resolution and collection of other types of arrears will most likely apply to other types of debts. While HR doesn't have oversight beyond benefits, we will continue to advise on best business practices and work with the A-C and County Counsel to create a model that can be replicated for other types of debt collection.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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## **SDI Program Coordination**

### Condition

During the audit, IA reviewed data related to PY coordination of the California State Employment Development Department Disability (SDI) program. Sutter County coordinates the SDI payments received by employees who also receive county pay for the same period. County employees cannot receive more than 100% of their normal gross wages while receiving SDI benefits payments from the SDI program. Therefore, employees are required by county procedures to submit a copy of all SDI payments received from the State (State form DE 2500E) to PY upon receipt.

PY reviews payments paid by SDI against the earnings paid by the county for the same period. If the employee received more than 100% of their normal gross wages, the PY department will reduce employee's future earnings and reinstate a portion of the employees leave hours used during the timeframe.

(Example: Employee received payment of \$660.00 from SDI and received county pay of \$1500.00 for 80 (\$18.75 hourly rate) hours of sick leave for the same period. An employee cannot receive more than \$1,500.00 for the pay period. Therefore, PY will deduct \$660.00 from the employee's next paycheck and reinstate 35.2 ( $\$660.00 / \$18.75$ ) hours of sick leave to employee's bank which had been used during their leave.

Unfortunately, due to the coordination of the SDI payments PY and employees experience some issues:

- The county does not receive notice from State regarding payments issued. PY must rely on the employee to provide payment information received from SDI.
- PY must manually calculate all SDI coordination. Manual calculations are subject to error.
- The total tracking of the outstanding employee debt and the payments recovered is a manual process. PY prepares a deduction for a pay period, however, if the employee does not have enough income to cover the SDI deductions PY must postpone and try to deduct the next pay period.
- The process is confusing to employees, and employees do not understand the SDI coordination that causes the reduction of their paychecks. (It is a "surprise" to them that we must "buy-back" the overpayments they receive).
- PY is consistently working in arrears, so many times employees will be back to work, but PY will be coordinating benefits for many pay periods.
- At times, duplicate payments occur (SDI and county), and in some cases, the employee doesn't return to work (termination) which causes an additional collection issue.
- Can create PY issues with employee records causing manual corrections to pay history and tax reporting.

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With the coordination of the employee pay and SDI benefits, the county has taken on the burden of the coordination that is the responsibility of the State of California and the employee. This coordination has led to some inefficient practices and ineffective communications. The current program lacks oversight and increases the risk that an employee will receive more than 100% of gross wages in combined paid leave and SDI benefits.

Cause

Sutter County historically has coordinated SDI benefits received by an employee from the State of California, Employment Development Department (EDD).

Also, the county rules state an employee on a leave of absence for their serious health condition is required to use their leave balances (except vacation) during their leave of absence until the balances are exhausted, or the employee returns to work.

Criteria

The Sutter County Rules Governing employee Compensation, Benefits, and Working Conditions, rule 12.22; state an employee absent from work and receiving SDI benefits or Paid Family Leave (PFL) benefits shall be required to integrate any paid time off used

However, HR currently requires employees to use all their leave balances (except vacation) in full-day increments until exhausted before going into unpaid leave status.

Effect

While the SDI program provides SDI insurance and PFL wage replacement benefits to eligible workers who need time off work, the program is designed to be a replacement of wages, not an addition to full wages.

Recommendation

IA recommends the HR Director and the A-C work to develop a program in which the PY department will no longer coordinate SDI benefits. Therefore, an employee who receives county paid leave wages will be responsible for reporting the wage information to the State of California EDD SDI program.

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Management Response

Concur. Effective January 1, 2018, employees will no longer be required to post their own time for disability leave. Employees will be permitted to post time at a rate of 45% per day, but they will not be paid at 100% while on SDI. This will allow PY to collect premiums and other deductions promptly. The employee will also not be overpaid or forced to use all their benefit time and most importantly, will not go into arrears.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: Completed, January 26, 2018

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## **Lack of Fiscal Year Benefit Enrollment Forms**

### Condition

IA reviewed the sampled selection of 248 employee benefit folders for benefit enrollment forms, and if applicable dependent data, FMLA leave information and arrears worksheets. While enrollment documentation for the sampled population was available for an enrollment period, the enrollment documentation for 113 employees was not available for review.

### Cause

HR benefit personnel identified during open enrollment periods if an employee was not making changes to their existing benefits, a new enrollment form was not required.

### Criteria

Section 125 requirements for cafeteria plans include a specific description of benefits and the coverage period; participation limited to eligible employees, (normally) requires a 12-month plan year; employees can't pay for a benefit in one year and expect to use in the following year; etc. However, when FMLA interacts with Section 125, the rules become complicated because some options can apply. In one example an employer can allow the employee to continue coverage through the leave and permit some ways to pay for that coverage – pay as you do, pre-pay or catch up contributions when the employee returns to work. Also, each plan needs to pass three test elements: Employment requirement; entry requirements; and nondiscrimination. For the nondiscrimination test, the plan must ensure it does not discriminate in practice.

Per the Summary Plan Descriptions (SPD) effective July 1, 2015, to enroll as a subscriber, or enroll dependents, the application is properly filed when it is personally signed, dated and given to the plan administrator within 31 days from the employee's eligibility date.

### Effect

While Internal Audit recognizes that during the open enrollment period employees were not enrolling as new employees, the county did become a member of a new insurance group (SJVIA), which potentially violated our plan descriptions. Therefore, the IRS may consider this process a failure to operate by the terms of the plan and failing to meet Section 125 requirements can have serious consequences. The IRS could even disqualify the plan.

### Recommendation

IA recommends the HR Director develop a standard operating procedure requiring employees to complete all enrollment form. Also, all completed enrollment forms (paper or electronic) will be maintained based on county document retention rules.

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Management Response

Concur. Sutter County completed its first electronic benefit enrollment in October 2017. All employees were required to log on and verify their enrollment, whether they were making changes to their plans or not. All future enrollment forms, beginning with the October 2017 enrollment, will be stored electronically.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: Completed, October 30, 2017

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## **Incomplete Benefit Enrollment Forms**

### Condition

IA reviewed the sampled selection of 248 employee benefit folders for benefit enrollment forms, and if applicable dependent data, FMLA leave information and arrears worksheets. IA identified a variety of issues with many of the enrollment forms. Issues included missing dates on the actual enrollment form and handwritten changes to enrollment information.

### Cause

Historical practice.

### Criteria

Per the Summary Plan Descriptions (SPD) effective July 1, 2015, to enroll as a subscriber, or enroll dependents the subscriber must properly apply. An application is considered properly filed, only if it is personally signed, dated and given to the plan administrator within 31 days from the employee's eligibility date.

### Effect

Without a date stamp, IA was unable to determine if employee submitted enrollment forms timely. IA was also unable to determine the timing of an employee's enrollment in cases when there was a delay in benefits personnel setting up or making changes to an employees benefits. Also, IA was unable to determine if the employee or benefits personnel was responsible for the handwritten note.

IRS may consider a violation of the SPD a failure to operate by the terms of the plan and failing to meet Section 125 requirements can have serious consequences. The IRS could even disqualify the plan.

### Recommendation

IA recommends the HR Director establishes a procedure that all enrollment forms must meet the plan requirements, or benefits personnel should reject the form until the employee correctly completes the form. When using electronic enrollment forms security measures need to be in place to ensure the employee cannot submit an incomplete form.

Also, all documents received by benefits personnel need to be date stamped, and benefits personnel should initial and date all handwritten notes.

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Management Response

Concur. Sutter County completed its first electronic benefit enrollment in October 2017. All employees were required to log on and verify their enrollment, whether they were making changes to their plans or not. All future enrollment forms, beginning with the October 2017 enrollment, will be stored electronically.

Responsible Manager: Regina W. Romeo, Human Resources Director

Implementation Date: Completed, October 31, 2017



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## **Benefit Dependent Documentation Incomplete**

### Condition

IA reviewed the sampled selection of 248 employee benefit folders for benefit enrollment forms, and if applicable dependent data, FMLA leave information and arrears worksheets. Of which, 123 employee benefit folders were missing the dependent documentation such as:

- Marriage certificates
- Birth certificates
- Domestic partner affidavits
- Adoption papers
- Legal documents that establish custody, guardianship or foster care
- Medical documentation of disability

Without dependent documentation, IA was unable to confirm dependent information on 50% of the sampled population.

### Cause

HR benefit personnel stated when the insurance plans were managed through TCSIG, TCSIG required copies of the dependent documents provided. However, the previous HR benefit personnel typically did not make copies before submitting the documentation to TCSIG. During the fieldwork, the HR benefits manager discovered all the TCSIG enrollment documents that had been copied had been destroyed in error.

### Criteria

Both Anthem and Kaiser insurance summaries have a definition of eligible dependents for enrollment purposes. For example, a spouse recognized under state or federal law as well as a child under 26 years of age, are both eligible for coverage under an employee's plan.

### Effect

With healthcare costs continuing to rise, one important item to consider is who is being covered under our health care plans. Removing ineligible dependents can save costs. However, without proper dependent documentation, it's impossible for an employer to ensure it's not covering ineligible dependents.

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Recommendation

IA recommends the HR director develop a program asking active participants to submit all missing dependent documents necessary to establish both a dependent relationship and that the relationship still exists. If proof of dependent status is missing or inadequate, HR will proceed with termination of benefit coverage.

Management Response

Concur. The Director of HR develops a program to collect the missing dependent documents necessary to establish both a dependent relationship and that the relationship still exists. If proof of dependent status is missing or inadequate, HR will proceed with termination of benefit coverage.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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## **Leave Tracking**

### Condition

During the audit, benefits personnel provided IA with an OS Leave report (HR77). IA reviewed the report against the sampled 248 employee population and determined 42 of the sampled employees were missing from the leave report based on the leave documentation in the employee's benefit folder.

### Cause

Lack of consistent procedures for enforcement of reporting and tracking employee leaves from employment.

### Criteria

The federal Family Medical Leave Act (FMLA) and the California Family Rights Act (CFRA) applicable to employers with 50 or more employees contains overlapping and sometimes conflicting employee rights, and employer obligations regarding California family leave. The FMLA and CFRA both require covered employers to provide time off for personal illness, to attend to the illness of a family member and relating to the birth or adoption of a child. Based on these two Acts it is vital that HR accurately track employee leaves.

### Effect

At a glance, the FMLA and CFRA programs sound simple. However, the issues related to the FMLA and the CFRA are among the most litigated of all employment law cases and can result in large settlements. Non-compliance with state and federal employee leave rules increases the risk of litigation and penalties by government authorities.

### Recommendation

IA recommends the HR Director develops a countywide procedure of requirements for departments to report employee leaves to HR and PY for HR tracking and PY processing.

### Management Response

Concur. The Director of HR develops a countywide procedure requiring all departments to report employee leaves to HR and PY for HR tracking and PY processing.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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**Outdated Human Resources Benefits Procedures and Processes**

Condition

During the audit, HR benefits personnel provided outdated procedures related to the processing the collection of delinquent employee benefit premiums. Also, procedures were not in place related to reconciling the month health benefit invoices until February 2017.

Cause

Lack of standard operating procedures.

Criteria

The California State Controller, Internal Control Guidelines, suggest methods to address information and communication in stating:

Local governments may adopt policies and procedures to communicate important information about management's expectations for each process. Policies should be deployed thoughtfully and conscientiously to ensure that required actions are reasonable. Procedures should articulate the distinct responsibility and accountability of each involved in the process. Procedures lose effectiveness unless they are performed consistently, by qualified personnel that is properly trained, and with a continuous focus on the risks to which they are directed.

Written policies and procedures establish management's criteria for executing the organization's operations. Business processes, personnel responsibilities, and departmental operations should be established to promote uniformity in executing and recording transactions. Organizations should have written policies and procedures to help guide their staff in making decisions.

Effect

If written policies and standard operating procedures do not exist, are inaccurate, incomplete, outdated, irrelevant, not written succinctly, or not communicated, results could include inconsistent practices among staff and departments, processing errors due to lack of knowledge, and the inability to enforce employee accountability.

Unwritten procedures are a problem in that they are not subject to review and approval or accountability, leaving staff to their own devices to determine what defines quality and what the organization deems important. With outdated policies and procedures, personnel could take it upon themselves to find a workaround, which is the same as having unwritten policies and procedures. Well written policies and procedures increase organizational accountability and transparency and become fundamental to quality assurance and quality improvement programs.

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Recommendation

IA recommends the HR Director develop standard operating procedures to reflect current practices.

Management Response

Concur. The Director of HR will develop standard operating procedures to reflect current practices.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: March 31, 2018

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## **Electronic Benefit Enrollment**

### Condition

Even with the implementation of OS Employee Online (EO), HR continued to utilize a paper-based enrollment form. However, processing benefits on paper forms is a very time-consuming process and lead to errors and duplication of efforts. EO can be set up to include benefit program enrollments. The open enrollment process allows the employee to add or change a record in employee online. The record remains in a pending status until HR benefits personnel can review and approve or decline the change. Once the record is approved the data is transferred to the HR/PY module.

With proper setup, EO automatically updates the HR and PY module. EO can streamline and simplify the enrollment process for the employees and HR benefit personnel, especially during the busy annual open enrollment periods. Electronic files of the benefit updates could be encrypted and transmitted electronically by Information Technology to any benefit administrator chosen by the county.

IA understands that in the very near future HR is planning to have available electronic open enrollment for county employees. However, the electronic enrollment will be outside of the county system. Employees will be required to log in a third-party website to make changes to their benefit plans.

### Cause

Historically electronic enrollment was not available.

### Criteria

Best practice suggests a trend towards electronic benefits enrollment to obtain cost efficiency of self-service technology over manual work, reduced error in data calculations, and overall faster processing of benefits.

### Effect

Under-utilization of the SunGard software purchased by the county.

### Recommendation

IA recommends the HR Director review the cost of setting up EO for benefits enrollment.

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Management Response

Non-Concur. At this time, the Director of HR does not see the need in evaluating the EO benefits enrollment, since Sutter County completed its first electronic benefit enrollment in October 2017 with CSAC-EIA.

Responsible Manager: Regina W. Romeo, Human Resources Director  
Implementation Date: NA

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**AUDIT STANDARDS AND ADMINISTRATION**

The audit was conducted in accordance with generally accepted government auditing standards, except that a Peer Review has not been performed. These standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the judgments and conclusions based on our audit objectives. We believe that our evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

**POST-AUDIT CONFERENCES**

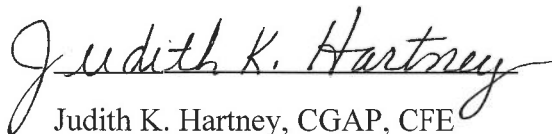
A draft of this audit report was issued to the HR Director on September 05, 2017. The exit conference was held September 11, 2017, with the appropriate department and IA staff and management in attendance. All findings were discussed in detail with management, and conference participants were provided a copy of the preliminary draft report before the exit conference. Acceptable management responses were received on December 04, 2017.

**ACKNOWLEDGEMENTS**

Internal Audit would like to thank the Human Resources management and staff for their cooperation throughout this audit.



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Auditor-Controller



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County of Sutter Auditor-Controller  
INTERNAL AUDIT  
CAO-HR Benefits Audit, IA2016-02  
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**DEFINITIONS and ACRONYMS:**

Acronyms:

A-C	Auditor-Controller
ACL	Audit Command Language software
BOS	Board of Supervisors
CAO	County Administrative Office
CPA	Certified Public Accountant
EDD	State of California Employment Development Department
EIA	CSAC Excess Insurance Authority
EO	SunGard (Superion) Employee Online
ERISA	Employee Retirement Income Security Act of 1974
FSA	Health Care Flexible Spending Account
FY	Fiscal Year
IRC	Internal Revenue Code
IRS	Internal Revenue Service
HR	Human Resources
LOA	Leave of Absences
NA	Not Applicable
OS	SunGard (Superion) OneSolution System
PY	Payroll
SDI	State Disability Insurance program
SJVIA	San Joaquin Valley Insurance Authority
TCSIG	Tri-County Schools Insurance Group