



**S U R P R I S E**

ARIZONA

# **Benefits and Enrollment Internal Audit Report**

May 7, 2019

## Internal Audit Report

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**Benefits Open Enrollment**  
**May 13 - 24, 2019**

**NOT MAKING A CHANGE?**

*Image Source: City of Surprise Employee Intranet – Benefits Page*

# Executive Summary and Observations

## Executive Summary

The Human Resources (HR) Department manages the City of Surprise's (City) self-insured benefits plan funded from the Employee Healthcare Fund which is overseen by the Health Benefits Trust Fund Board. The Benefits Division of HR processes employee and dependent benefits eligibility verification and enrollment, updates and maintains benefits coverage records, and manages contract compliance and payments for the City's Third Party Administrators (TPA's) who administer the health, medical, and vision insurance plans.

In Fiscal Year (FY) 2019, Internal Audit (IA) assessed the design and operating effectiveness of internal controls around benefits and enrollment focusing on effectiveness and efficiency of benefits processes, safeguarding of financial assets, adequacy of information technology, and compliance with regulations. The procedures performed indicate that defined controls exist around employee and dependent enrollment, vendor procurement and payment, continuing coverage, and contract and regulatory compliance to materially ensure the accuracy and completeness of benefits enrollment. Observations were identified related to formalizing segregation of duties in roles and system access, implementing periodic monitoring, and enhancing documentation of policies and procedures.

## Observations

1. HR management should establish reports and document a review process for changes made to employee payroll deductions. *(Page 5)*
2. Procedures to monitor regulatory compliance should be defined and performed timely. *(Page 6)*
3. The review process for monitoring TPA records accuracy with 834 Exception Reports should be formalized and documented. *(Page 7)*
4. HR management should develop and document centralized monitoring for appropriate document retention and timely resolution of open items. *(Page 8)*
5. Segregation of duties for HR functions should be defined and aligned with Munis system access. *(Page 9)*
6. HR management should consider the feasibility of periodically re-verifying dependent eligibility. *(Page 10)*
7. Access to benefits applications should be monitored periodically. *(Page 11)*
8. HR management should document a formal procedure for monitoring TPA contracted performance guarantees. *(Page 12)*
9. HR management should determine the feasibility of increased efficiencies utilizing Munis workflow capabilities. *(Page 13)*

## Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix A.

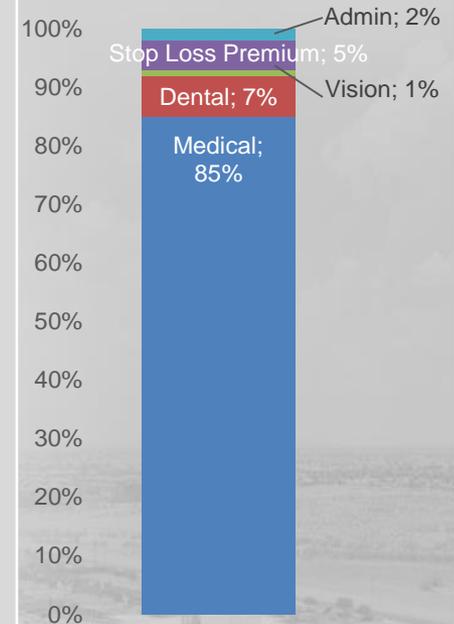
# Background, Objectives, and Scope

## Background

As of January 2019, the City's health care benefits (medical, dental, and vision insurance) covered approximately 852 active City employees and 1,732 dependents. Estimated insurance claims for FY2019 totaled approximately \$11.5 million and the City continues to recognize lower than industry average medical costs. The City utilizes TPA's for medical, dental, and vision insurance who process claims on the City's behalf and bill the City monthly for claims and administration fees. All three TPA's went through a Request for Proposal (RFP) process in FY2018 (medical) and FY2019 (dental, and vision) resulting in a new dental TPA and continuation of the existing medical and vision contracts. The City complies with the Patient Protection and Affordable Care Act (ACA), Health Insurance Portability and Accountability Act (HIPAA), Health Care Continuation Coverage (COBRA), and Internal Revenue Service (IRS) reporting regulations which govern various aspects of employer-offered insurance plans.

Employees may enroll in benefits as new full-time employee within 30 days of hire, during annual open enrollment in May, or as a result of a qualifying life event (QLE) like marriage, childbirth, or loss of other coverage. Once benefits elections are made, HR personnel verify dependent eligibility, when applicable, scan and archive enrollment documentation within the LaserFiche document repository, and enter the elections into Munis where they are reviewed and approved using automated workflows. Elections or benefits changes are communicated to the TPA's through automated weekly reports and to City Payroll personnel through the Munis workflow for processing biweekly payroll deductions. Eligible terminated employees or dependents who lose coverage due to age or change in family situation are offered the option of continuing coverage which the City manages utilizing COBRA Solutions software.

## FY2019 Healthcare Fund Budget: \$12.7M



## Objectives

As part of the approved FY2019 Annual Audit Plan, in January, IA commenced with the Benefits and Enrollment audit within HR.

The objective of the audit was to determine whether controls are in place to determine enrollment eligibility for health, dental, and vision benefits as per City's definition of eligibility. The audit also assessed City compliance with healthcare provider agreements.

This audit did not comprehensively review regulatory requirements and is not intended to conclude the City is in compliance with all applicable regulations.

## Scope / Methodology

The scope of the audit was for the period of July 1, 2017 to March 31, 2019 (the current FY and prior full FY). Procedures included:

- Interviews and discussions with HR, Information Technology (IT) Department, and Finance personnel
- Review of HR and benefit-related policies and procedures
- Analysis and sample-based testing of Munis and TPA data and supporting documentation around benefits transactions
- User access review for systems storing personally identifiable information (PII) and personal health information (PHI)

# Detailed Observations – High Risk

Observation	Recommendation	Management Response
<p><b>1 – HR management should establish reports and document a review process for changes made to employee payroll deductions.</b></p> <p>Many changes to employee benefits and deductions are made through the Munis workflow process, requiring review and approval of multiple individuals before becoming effective but there are some changes made directly in the live Munis environment. There are several individuals within HR who have access to make changes to payroll deductions, rates, and employee information in Munis without going through the workflow approval process. Biweekly payroll is currently processed through Munis by two Payroll Specialists and overseen by a Payroll Supervisor who are all able to modify payroll inputs and generate payroll.</p> <p>The Fraud Triangle framework identifies opportunity, or the ability to execute a plan without being caught as a key risk factor for potential fraud. Organizations can eliminate the opportunity for fraud by implementing monitoring controls designed to catch any errors or unauthorized transactions.</p> <p>Through inquiry performed, it was noted that there is currently no systematic reporting and review to capture payroll changes made throughout the period to verify accuracy and appropriateness. Additionally, there is currently not a review of payroll changes by an individual without the access to also make changes.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Unauthorized changes may be made to payroll register</li> <li>• Deductions may not agree to the benefits enrolled in</li> </ul>	<p>HR management should:</p> <p>A. Work with IT and Munis vendor to develop a usable payroll change report which details any changes made since the prior pay period. The report should include any manual changes made including, but not limited to: updated deduction amounts, employee name / bank account information, manual adjustments to hours, etc.</p> <p>B. Develop and document a review process for each pay period in which an HR management designee reviews manual changes and period-over-period deviations for accuracy and reasonableness. Work with IT to modify user access permissions to ensure the reviewer is systematically unable to make any changes without secondary Munis workflow approval.</p>	<p>A. <b>Concur.</b> As previously identified in the “Payroll Error – Human Resources Department” audit from May 7, 2019, we have identified a process to check employee pay rate changes from one payroll to the next. Unfortunately, Munis does not have any existing reports that will meet this need. Therefore, we will need to create a custom report within the system limitations of Munis. We will continue to collaborate with IT and Munis to create a payroll changes report to include pay rates and deductions. Estimated date of completion is September 30, 2019.</p> <p>B. <b>Concur.</b> The verification of manual changes has been addressed in the HR Data Changes Audit Process SOP completed June 14, 2019. This SOP provides guidance relative to access to make manual/live data changes, authorization for these changes, required supporting documentation, independent review of changes, and communication of changes. The SOP will be updated to include the process for running and reviewing the payroll changes report as mentioned in item 2A. User access permissions will be addressed in the HR Benefit Administration SOP. Estimated date of completion is September 30, 2019.</p>

# Detailed Observations – High Risk

Observation	Recommendation	Management Response
<p><b>2 – Procedures to monitor regulatory compliance should be defined and performed timely.</b></p> <p>Regulations the City must comply with include ACA and COBRA. ACA requires the City to offer insurance to any employee who averages 30 hours per week. To comply, HR uses canned Munis reports detailing part-time employee hours on a rolling 12-month basis using their hire date and notifies any eligible employees identified.</p> <p>COBRA regulations require that group health plans offer “qualified beneficiaries” an opportunity for “continuation coverage” following the loss of coverage. To comply with COBRA, HR processes benefits termination packets for terminated employees enrolled in benefits which provide options for continuing coverage. HR utilizes COBRA Solutions software to track employee continuing benefits and applicable payments.</p> <p>Through testing performed, the following were noted:</p> <ul style="list-style-type: none"> <li>- Three monthly 29+ Hour Reports generated in the last 18 months were run and analyzed after the coverage eligibility date for any identified employees. The report creation timeline does not allow enough time to process elections before the eligibility date.</li> <li>- For one of 12 terminations tested, a COBRA letter of eligibility was not distributed to the employee. There is no periodic review of all terminations to verify all COBRA termination notices were completed.</li> </ul> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• The City could be out of compliance with federal COBRA and ACA regulations</li> <li>• Eligible employees might not have timely coverage</li> </ul>	<p>HR Management should:</p> <p>A. Update the procedures and timeline for 29+ Hour Reports to run and analyze the report the first week after the initial measurement period month ends to allow time for appropriate processing and follow-up during the 60-day administrative period.</p> <p>B. Develop and document a process for periodically monitoring terminated employees for completeness and accuracy of COBRA compliance. A reconciliation between all terminated employees and those who COBRA notifications have been prepared for should be performed at least monthly by someone who does not prepare the COBRA notifications.</p>	<p>A. <b>Concur.</b> Our 30 Hour Employee SOP has already been updated to allow appropriate processing time during the administrative period in accordance with the ACA. The SOP was updated and approved effective June 27, 2019. In the instances when the 29+ hour reports were run after the coverage eligibility date, it is important to note that no employee coverage was impacted. For the one eligible employee identified, coverage was offered retroactively.</p> <p>B. <b>Concur.</b> Completeness and accuracy of COBRA compliance is extremely important. To improve compliance, in December 2017 we centralized COBRA notifications to one staff member. Since that time we have been 100% compliant with COBRA notification requirements. In calendar year 2018, we processed 68 terminations for full-time employees who required COBRA notices. While monitoring processes exist, this will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p>

# Detailed Observations – High Risk

Observation	Recommendation	Management Response
<p><b>3 – The review process for monitoring TPA records accuracy with 834 Exception Reports should be formalized and documented.</b></p> <p>According to each TPA contract (medical, dental, and vision), it is the City’s responsibility to provide accurate eligibility information to each TPA promptly. 834 Reports are utilized weekly to verify Munis benefits enrollment records agree with each of the TPA’s enrollment registers. 834 and Exception Reports are a relatively new process (within last 6-8 months) resulting in more timely correction of any TPA data errors previously captured only in a monthly reconciliation.</p> <p>The 834 Report is generated by the HR Specialist and automatically exported to the TPA using a process set-up by IT. Exception Reports, detailing any discrepancies between the TPA’s records and Munis records, are sent by the TPA within a few days of receipt of the report. The HR Specialist reviews any exceptions, notes the required resolution, and communicates back to the TPA for correction.</p> <p>Through testing and inquiry performed, it was noted that documented policies exist around the creation and export of 834 Reports which are consistently run and retained, but not the Exception Report follow-up, review, and escalation procedures. The HR Department has not consistently been saving a record of the exception reports and, when applicable, necessary follow-up.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Lack of documentation may hinder HR’s ability to identify root cause of any future issues identified</li> </ul>	<p>HR Management should:</p> <p>A. Update the procedures around reviewing weekly 834 Exception Reports for TPA’s to include:</p> <ul style="list-style-type: none"> <li>- Follow-up and / or escalation procedures if issues or discrepancies are identified</li> <li>- Timeliness thresholds for reviewing Exception Reports</li> <li>- Procedures for evidencing review of each Exception Report</li> <li>- Documentation retention for TPA provided Exception Reports</li> </ul>	<p>A. <b>Concur.</b> While we currently have a prudent process in place, the only part of the process that is documented in an SOP is the 834 report generation in Munis. The additional elements mentioned, including our existing processes for timely reconciliation, will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p>

# Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
<p><b>4 – HR management should develop and document centralized monitoring for appropriate document retention and timely resolution of open items.</b></p> <p>The City is responsible for verifying employee and dependent eligibility for benefits coverage by obtaining specific documentation as outlined in state statute and federal regulation. Enrollment involves completion of an Enrollment Form and signatures on required HIPPA disclosures and affidavits. The City’s current Public Benefit Dependent Affidavit, used to collect information to enroll dependents in City benefits, states: “The City will not retain the identification once the form is approved.” HR personnel monitor outstanding items for their assigned employees or QLE’s and retain eligibility verification in LaserFiche once complete.</p> <p>Based on testing performed, the following was noted:</p> <ul style="list-style-type: none"> <li>- Four instances of incomplete / non-response to open item follow-up.</li> <li>- Eight findings around document retention including: dependent documentation retained not following policy, missing HR signature on a Dependent Affidavit, missing social security number documents, no signed HIPAA disclosure, and employee documents in incorrect employee’s folder.</li> </ul> <p>These findings were the result of inconsistent application of policy and decentralized tracking procedures among HR staff. HR was in the process of updating procedures during audit completion.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Dependents covered by City insurance may not have been appropriately verified for eligibility</li> </ul>	<p>HR management should:</p> <p>A. Develop and document procedures for maintaining appropriate documentation and monitoring open items to ensure timely resolution. Considerations include:</p> <ul style="list-style-type: none"> <li>- A centralized location for tracking all outstanding documentation</li> <li>- Quarterly supervisor review of open items</li> <li>- Defined escalation procedures for aging (&gt;90 days) follow-up items</li> <li>- Procedures for tracking dependent identifying information obtained outside of new hire orientation</li> <li>- Reviewer responsibilities when approving benefits changes in Munis</li> </ul> <p>B. At least biannually, review benefits-related documentation for a sample of new employees in the timeframe since the prior review to verify documentation retention according to HR policy.</p>	<p>A. <b>Partially concur.</b> In FY19, we processed 202 benefit changes, new hire benefit enrollments, and qualifying life event changes (QLEs) in addition to the annual benefits open enrollment. In early 2019, we proactively identified that we needed additional controls related to follow-up and supporting documentation – specifically for the Public Benefit Dependent Affidavit form. Incorporating advice and guidance from the City Attorney’s Office, we implemented a process to allow employees 90 days from benefit effective date to provide supporting documentation. While this process currently exists, it will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019. The only recommendation that we do not concur with is the centralized location for tracking outstanding documentation. This is a challenge because there are multiple staff members who are responsible for tracking and entering benefit changes, and each staff member has established a process for managing their work. Once the SOP is created and provides additional supervisor review and escalation procedures for aging items, the fact that these items are being tracked by various staff members is not a concern.</p> <p>B. <b>Concur.</b> Appropriate document retention is critical for benefits. Benefits supporting documentation newly scanned into Laserfiche is reviewed by staff (independent of the individual who scanned the documents) prior to the approval of the benefit entry in Munis. Information is also periodically reviewed when employees have a QLE or an open enrollment change. While the processes currently exist, they will be formally documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p>

# Detailed Observations – Moderate Risk

Observation	Recommendation	Management Response
<p><b>5 – Segregation of duties for HR functions should be defined and aligned with Munis system access.</b></p> <p>Munis is updated by HR on an ongoing basis with new hire elections, open enrollment, and QLE's. Access is generally restricted to employees with a need to modify or report on benefits in HR, IT, and Finance.</p> <p>The City's Information Security Policies outline controls to ensure only authorized persons are using the system and that each user's access privileges must be: authorized according to business needs, restricted to least privileges necessary to perform job, and assigned based on job classification and function.</p> <p>Through testing and inquiry performed, it was noted that for 16 employees with access to benefits and HR modules of Munis, user access to update and delete information might be above the minimum requirements for their job responsibilities resulting in segregation of duties issues. Additionally, a periodic comprehensive user access review of employees with access to HR modules is not performed.</p> <p>Seven individuals with access to benefits and HR related modules of Munis are terminated employees or inactive contractors who no longer need access and should be removed in cooperation with IT and Finance.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Inappropriate or inaccurate changes may be made to employee benefits in Munis without authorization</li> <li>• Personnel outside the City might have access to information beyond the scope of their work</li> </ul>	<p>HR management should:</p> <p>A. Document HR policies or a segregation of duties matrix defining duties for HR functions and jobs.</p> <p>B. At least bi-annually, work with IT to perform a review of all users, assigned roles, and permissions allowed by those roles to identify and remove any conflicting access roles, terminated or transferred employees, or unnecessary access. As Munis allows, HR Management should ensure that access to the system aligns with departmental segregation of duties policies and best practices for HR and payroll functions.</p> <p>Finance management should:</p> <p>C. Work with IT to develop a process to ensure outside personnel who require access to the system have that access removed timely upon completion of their project.</p>	<p>A. <b>Concur.</b> Segregation of duties is fundamental to the data entry and workflow review and approval processes in Munis. While processes currently exist, they will be formally documented in the upcoming HR Segregation of Duties SOP that we anticipate to be complete by October 31, 2019.</p> <p>B. <b>Concur.</b> We concur that staff access should be set at the lowest level required to perform their required tasks. Further, we recognize the need to collaborate with IT to periodically review the access levels of Munis users. This will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p> <p>C. <b>Concur.</b> On July 2, 2019, we worked with the IT Team to disable access for our former audit firm and will work with the IT Team on an annual basis to enable/disable our current external auditors access to Munis at the beginning and conclusion of the audit process.</p>

# Detailed Observations – Low Risk

Observation	Recommendation	Management Response
<p><b>6 – HR management should consider the feasibility of periodically re-verifying dependent eligibility.</b></p> <p>HR has controls in place which require employees to certify the eligibility of their covered dependents when adding any new dependents to City insurance by signing a Dependent Affidavit and providing a form of state-mandated identification. Dependent identification is required when added by a new hire, through open enrollment, or as a result of a QLE. Annually, if an employee makes no changes to their covered dependents, the employee is not required to submit any supporting documentation for that dependent’s continued eligibility. Monthly, HR generates the Dependent Overage Report to identify dependents aging out of ACA coverage at age 26.</p> <p>Though not required by law, many organizations encourage periodic (every 3-5 years) re-verification of dependent eligibility. For example, the State of California mandates re-verifying covered family members for state health benefits. Re-verification is beneficial to make sure dependents whose relationships can change over time are still eligible.</p> <p>Through inquiry performed, it was noted that the City does not have controls in place to periodically re-verify dependent eligibility. The city has previously considered if a dependent audit would be valuable, most recently in 2016, and determined it was not necessary at that time.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• The City may be paying for ineligible dependents who are not identified and removed timely</li> </ul>	<p>HR Management should:</p> <p>A. Define and document a process for periodically (every 3-5 years) reassessing the feasibility, benefits, and costs of performing periodic employee dependent re-verification to identify any dependents with a changed relationship status to the employee which may make them ineligible for City benefits coverage. Evidence (e.g. cost vs. benefit analysis) to support the feasibility determination should be maintained.</p>	<p>A. <b>Concur.</b> As the observation indicates, we verify appropriate dependent eligibility upon initial eligibility of the employee to enroll in the program(s) and elect coverage for their dependent(s) or when a new dependent is added. We also conduct periodic reviews of dependent eligibility with our age 26 process as mentioned, whenever an employee has a QLE, or when changes are made during open enrollment. For example, this open enrollment 110 employees were identified on an audit change report and we reviewed dependent eligibility for each employee for all eligible plans. Further, the Health Benefits Trust Board has previously discussed the appropriateness of a dependent eligibility verification audit. It was determined by the Board and benefits consultant at that time that the cost outweighed the benefit due to the low risk because of our existing controls as described above. We will collaborate with our benefits consultant to make a feasibility determination regarding re-verifying dependent eligibility by August 31, 2019.</p>

# Detailed Observations – Low Risk

Observation	Recommendation	Management Response
<p><b>7 – Access to benefits applications should be monitored periodically.</b></p> <p>HR uses a number of systems in addition to Munis to administer benefits. The HR shared drive is utilized to store monitoring and 834 Reports. LaserFiche is the City’s document repository where HR scans and saves benefits-related documentation (enrollment forms, dependent affidavits, etc.). COBRA Solutions is a desktop application used to monitor employees and dependents enrolled in continuing coverage.</p> <p>The City of Surprise Information Security Policies and Procedures section 4.5.1 – User Authentication states: “Host computer and network system access controls are required to ensure that only authorized persons are using the system resources and information necessary to perform their job duties.”</p> <p>Through testing performed, it was noted that for two of the three applications tested which store PHI and PII related to benefits (COBRA Solutions and LaserFiche), periodic documented user access reviews are not performed by the HR Department. These findings resulted from the fact that a listing of users with COBRA Solutions installed on their desktop is not maintained by HR or IT and the version of LaserFiche run by the City does not allow for the generation of systematic user access reports.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Potential for internal data breaches with inappropriate users gaining access to PII or PHI</li> </ul>	<p>HR management should work with IT to:</p> <p>A. Perform an audit of HR users with access to COBRA Solutions to develop a comprehensive list of users with access including the name of the user, the user’s 6-digit computer ID, and reason for needing access to COBRA Solutions. At least annually, the HR Department should perform a user access review of this listing to validate the appropriateness of access and remove any users no longer needing the application.</p> <p>B. At least annually, perform a user access review of all user with benefits / personnel folder access within LaserFiche to identify and remove any terminated or transferred employees or unnecessary access.</p>	<p>A. <b>Concur.</b> This will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019. We will create a list of users with COBRA Solutions access by August 31, 2019. In addition, we will audit and modify access as appropriate in the same timeframe.</p> <p>B. <b>Concur.</b> We have recently updated our users in Laserfiche to ensure only active HR users have access to employee benefits and personnel files. A formal process will be addressed in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p>

# Detailed Observations – Low Risk

Observation	Recommendation	Management Response
<p><b>8 – HR management should document a formal procedure for monitoring TPA contracted performance guarantees.</b></p> <p>Currently the contracts for the medical, dental, and vision insurance TPA's each include a variety of performance guarantees around areas like customer service, provider network maintenance, and communication with the City. The contracts also outline the City's ability to perform various audits or request reports on the performance guarantee status. TPA's may send documentation of performance guarantees, but they are both sent and reviewed on an ad hoc basis. The city has delegated the monitoring of performance guarantees to the City's benefits consultant.</p> <p>The City's procurement code requires the monitoring of contractor performance including inspecting deliverables promptly and documenting any efforts to rectify issues or failure to adhere to contract requirements.</p> <p>Through inquiry performed, it was noted that HR does not currently verify the completeness or scope of the procedures performed by the benefits consultant. There is currently no documented policy nor assigned personnel to monitor the TPA performance guarantees on a periodic basis.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Medical, dental, and vision insurance TPA's may not be in compliance with contract provisions</li> <li>• The City might not collect financial penalties owed due to contract non-compliance</li> </ul>	<p>HR management should:</p> <p>A. Work with the City's benefits consultant to establish and document formal procedures for monitoring the performance guarantees of TPA contracts. Though the monitoring is done by the benefits consultant, the City's procedures should include frequency of review of work performed, communication required to be provided by benefits consultant, assignment of review responsibilities, and follow-up procedures.</p>	<p>A. <b>Concur.</b> Per the City's benefits consultant contract, they are responsible for assisting us with monitoring performance guarantees for all of our vendors. This is addressed as needed or at least annually during contract renewals. As an example, we recently received funds as a result of missed performance guarantees from one of our benefit vendors. A formal process outlining the City's expectation of the benefits consultant will be documented in the upcoming HR Benefit Administration SOP that we anticipate to be complete by September 30, 2019.</p>

# Detailed Observations – Low Risk

Observation	Recommendation	Management Response
<p><b>9 – HR management should determine the feasibility of increased efficiencies utilizing Munis workflow capabilities.</b></p> <p>Monthly, HR is required by each TPA contract to submit two timely payments – one for claims paid in the preceding period and one for the administrative fees for the upcoming period. These invoices are prepared by the Senior (Sr.) HR Analyst – Benefits, approved by HR management according to defined authority limits, and paid through standard City accounts payable (AP) processes.</p> <p>When processing multiple monthly invoices for medical, dental, and vision insurance providers, the Sr. HR Analyst – Benefits generates or receives the invoice electronically, prints a hard copy of the invoice to have the Sr. HR Analyst – Benefits and HR Manager sign, then scans the hard copy for entry into Munis. The Munis approval workflows for benefits-related invoice approval currently begin with the management-level approver within the department. This requires the Sr. HR Analyst – Benefits, who is the initial invoice approver, to print and manually sign a hard copy of the invoice.</p> <p>Through inquiry performed, it was noted that inefficiencies exist for preparing and processing monthly invoices before being approved through Munis workflows.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Unnecessary time and resources spent on a task that could be automated using the current system</li> </ul>	<p>HR management should:</p> <p>A. Work with appropriate Finance and IT Department personnel to determine the feasibility of automating the complete invoice approval process by customizing workflows based on the invoice coding. If possible, develop comprehensive Munis workflows for invoice approval which include all necessary approvers, eliminating the need for manual approvals outside the system.</p>	<p>A. <b>Concur.</b> With the implementation of Munis, AP records and reporting are now more accessible than ever before. Due to the high dollar amount of many of these invoices, appropriate staff controls and review levels are required. HR management will determine if an HR Manager’s signature on a hard copy is still necessary given the workflow processes in Munis. We anticipate making any process changes (if needed) by October 31, 2019.</p>

# Appendix A – Data Reliability and Risk Rating

## Data Reliability

The data utilized for the work performed was either obtained directly from Munis, the City of Surprise’s financial system of record, or obtained directly from the TPA and agreed to Munis. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City’s external auditor.

Additionally, as part of testing procedures for this Benefits and Enrollment audit, IA performed testing on samples of employees, dependent and enrollment data, and supporting documentation and identified no errors or limitations material in context of the work performed.

Internal Audit determined the data utilized is sufficiently reliable given its intended use.

## Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:



- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

# Appendix B – Standards and Acknowledgements

## Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

This project was not intended or designed to be a detailed study of every relevant procedure, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Benefits and Enrollment Audit for their considerable cooperation.

We received input and assistance from the following:

- Human Resources (Benefits Administration and Payroll)
- Information Technology
- Finance

Auditor: Alison Matthees, MPA, CIA

## Surprise Internal Audit

### Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

### Mission

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:  
<https://www.surpriseaz.gov/2561/Internal-Auditor>