

**MANAGEMENT AUDIT REPORT**

**OF**

**HUMAN RESOURCES DEPARTMENT  
INSURANCE AND BENEFITS DIVISION**

**REPORT NO. 08-110**



**City of Albuquerque  
Office of Internal Audit and Investigations**

Management Audit of the Human Resources Department  
Insurance and Benefits Division  
Report No. 08-110  
Executive Summary

**Background:** The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the Human Resources Department – Insurance and Benefits Division (HRD - IBD). This audit was included in the fiscal year (FY) 08 approved audit plan.

The HRD – IBD:

- Administers health, dental, vision, life and disability benefits and deferred compensation programs to employees of the City of Albuquerque (City) and other governmental entities.
- Administers all aspects of a large employer insurance program in an effort to ensure that employees are healthy, safe, productive and motivated.
- Coordinates the retirement process so employees have a smooth transition into retirement.

During FY08 the City paid 83% and employee paid 17% of health insurance premium costs. There are 14 inter-governmental agencies that piggy-back on the City's insurance benefit plan and pay administrative fees to the City for these services.

In FY08 5,904 City employees and 2,578 other inter-governmental agency employees were enrolled in the benefits program, with a total of 21,703 individuals insured through the City medical insurance benefits plan.

**Objective:** Did employees on leave without pay (LWOP) for a full pay period (80 hours) during FY08 pay their full portion of the insurance premium costs?

Thirty-nine of 39 (100%) employees tested who were on LWOP during FY08 did not reimburse the City for their portion of insurance premiums while on leave. The City did not set up receivable accounts or collect these funds.

**Recommendation:** HRD - IBD should develop a process to ensure employees who are on LWOP reimburse the City.

**Objective:** Was there supporting documentation for employees who changed their insurance outside of the open enrollment period for FY08?

One of 34 (3%) employee benefit files could not be located for testing. HRD-IBD does not have written policies to physically safeguard the files.

**Recommendation:** HRD – IBD should develop written policies to physically safeguard employee benefit files.

**Objective:** Were the agreements in place with other governmental entities to provide piggy-back group insurance coverage for FY08?

- Five of 5 (100%) Intergovernmental Agency (IA) agreements tested indicated the City did not conduct periodic audits in accordance with the provisions of the agreements.
- One of 5 (20%) IA agreements tested indicated the City did not bill or collect an FY08 IA annual fee.
- HRD – IBD personnel received premium checks from IAs and forwarded them to the insurance providers, which is not accordance with the provisions of the IA agreements.

**Recommendations:** HRD – IBD should:

- Complete periodic audits of IAs as required by contract.
- Ensure IA annual fees are billed and collected by the City in a timely manner.
- Ensure personnel do not accept and/or forward premium payments from the IAs.

During our fieldwork we noted no exceptions for the following objectives:

Did part-time employees with City insurance during FY08 work at least 20 hours per week?

Were terminated employees benefits stopped as of the date of termination?

Are there performance measures for the HRD – IBD and have these performance measures been achieved for FY08?

**Management responses are included in the audit report.**



***City of Albuquerque***  
**Office of Internal Audit and Investigations**  
**P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103**

April 16, 2009

Accountability in Government Oversight Committee  
City of Albuquerque  
Albuquerque, New Mexico

Audit: Management Audit  
Human Resources Department  
Insurance and Benefits Division  
08-110

**FINAL**

**INTRODUCTION**

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During FY08 the City paid 83% and employees paid 17% of health insurance premium costs. There are 14 inter-governmental agencies that piggy-back on the City's insurance benefit plan and pay administrative fees to the City for these services.

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## AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Did employees on leave without pay (LWOP) for a full pay period (80 hours) during FY08 pay their full portion of the insurance premium costs?
- Did part-time employees with City insurance during FY08 work at least 20 hours per week?
- Was there supporting documentation for employees who changed their insurance outside of the open enrollment period for FY08?
- Were terminated employees benefits stopped as of the date of termination?
- Were there agreements in place with other governmental entities to provide piggy-back group insurance coverage for FY08?
- Are there performance measures for the HRD – IBD and have these performance measures been achieved for FY08?

## SCOPE

Our audit did not include an examination of all functions and activities related to the HRD - IBD. Our examination was limited to the objectives noted above during FY08.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, January 7, 2009, and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## METHODOLOGY

OIAI interviewed HRD - IBD personnel who administer insurance and benefits for the City. Documentation and processes reviewed included the following:

- HRD Family Medical Leave Act (FMLA) Employee Leave Package
- HRD Personnel Procedures Manual
- City Personnel Rules and Regulations

- HRD – IBD Policy and Procedure Manual
- Supporting documentation of Insurance and Benefit contracts, Intergovernmental Agency (IA) Agreements, and premium transactions.
- Performance measures reported in the FY08 Performance Plan.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. HRD – IBD SHOULD DEVELOP A PROCESS TO ENSURE EMPLOYEES WHO ARE ON LWOP REIMBURSE THE CITY.

In FY08, 721 employees were on LWOP for 80 hours during a single pay period. OIAI selected a statistical sample of 39 LWOP employee records and performed test work to determine if:

- The employee was required to pay for insurance coverage during the time he/she was on leave for 80 hours during a single pay period.
- The City set-up a receivable account for these funds.
- The funds were collected in a timely manner.

Thirty-nine of 39 (100%) LWOP employees tested did not pay their portion of insurance premiums to the City and did not have receivable accounts set up. A summary of the test work is as follows:

Type of LWOP	Employee Portion (a)	# of Employees Sampled Who Did Not Pay The City	Uncollected Insurance Costs - Per Sample	Uncollected Insurance Costs – Citywide Projection (b)
FMLA or Military	17%	24	\$1,218	\$15,120
All Other LWOP	100%	15	4,282	68,518
Total		39	\$5,500	\$83,638

(a) - Portion of insurance premium required to be paid by the employee.

(b) - Average insurance cost per employee sample multiplied by total number of employees on LWOP in FY08.

HRD – IBD personnel stated there was not an effective reporting tool available during FY08 that could provide accurate data regarding when employees were on LWOP for 80 or more hours during a single pay period. Therefore, receivable accounts were not set-up or collected for the insurance costs owed the City.

According to the FMLA informational package distributed to City employees by the HRD – IBD, employees are required to make arrangements with HRD to pay their portion of health insurance premiums while on FMLA leave.

City Administrative Instruction No 7-38 (Revised): Administration and Interpretation of Military Leave Provisions requires the City to continue paying the employer portion of health insurance premiums for employees on Active Duty Status Military leave. The employee must continue to make timely payment of their portion of insurance premiums to the same extent as if they were not on active military duty status.

City Personnel Rules and Regulations 403.6 require employees in an unpaid status for one full pay period or longer to make arrangements for direct payment of contributory insurance benefits to the City. If employees do not make direct payments, their insurance coverage will be cancelled.

HRD – IBD Policy and Procedures state if employees on LWOP wish to continue their insurance coverage, HRD - IBD personnel will create a receivable account which allows the employee to make payments either at the Treasure’s office or by mail. Should the employee return to work, he or she may make arrangements for payroll deductions with HRD - IBD to pay the total premium cost.

When insurance premiums are not tracked and collected from employees on LWOP, the City incurs the full cost of insurance premiums. City financial statements are also misstated because benefit expenditures and accounts receivable are inaccurate.

#### RECOMMENDATION

HRD - IBD should:

- Develop a process to ensure employees who are on LWOP reimburse the City.
- Review all employees on LWOP during FY08 and request reimbursement of the insurance and benefit premiums paid on their behalf by the City.
- Set up receivable accounts for amounts owed to the City.

RESPONSE FROM HRD - IBD

***“HRD is in agreement with this finding. The Insurance and Benefits Division (IBD) did not collect premiums for a portion of the employees on a LWOP status for FY 2008. Due to a lack of credible reporting some employees were not identified as being in a “self pay” situation regarding their respective benefits. Over the past few months, the Insurance and Benefits Division, has worked with both HRMS systems (Empath and PeopleSoft) to identify reports that can reliably identify employees who have entered into a “self-pay” situation such as Leave Without Pay.***

***“As required by City Personnel Rules and Regulations 403.6, the Insurance and Benefits Division is charged with identifying employees in a “self-pay” situation, notifying those employees of their responsibility to pay full contributory premium, and ultimately for recording payment or terminating benefits. Employees, excluding those with a certified FMLA qualifying condition or those on active military deployment, who do not pay premium by their respective due date are subject to benefit termination. Employees whose benefits are terminated will not be eligible to re-enroll until the next Open Enrollment period.***

***“By improving the ability to identify and track employees who have entered into a self pay situation, the Insurance and Benefits Division will position itself to administer this vital component of group health administration. In addition, IBD will review related City policies to ensure policy language is in alignment with business processes. By the end of FY/09 the Division will have formal written policy and procedure for “self-pay” submitted to CAO for approval.”***

2. HRD – IBD SHOULD DEVELOP WRITTEN POLICIES TO PHYSICALLY SAFEGUARD EMPLOYEE BENEFIT FILES.

OIAI performed a test of insurance premiums adjustments made during FY08. A statistical sample of 34 employee benefit files was selected for review. One of the 34 files (3%) could not be located by HRD – IBD personnel.

The HRD – IBD fiscal manager stated there is no written policy addressing how the employee benefit files are handled. All team members have access to the files and there is no log kept to track the activity of an individual file. There is an understanding in the office that employee benefit files are not allowed outside the office, however there are no controls in place to ensure HRD – IBD personnel comply.



The Federal Privacy Act requires agencies to establish rules of conduct and instruction to any person involved in the operation or maintenance of any system of records. Appropriate administrative, technical and physical safeguards are required to be established to ensure the security and confidentiality of records.

The City Personnel Rules and Regulation 301.16 require employees to protect privileged information during the course of their official duties. Employees are not allowed to disclose or use confidential information acquired through their employment with the City for gain or profit.

When internal controls are not in place, employee benefit files may be misplaced and/or removed from the HRD – IBD office. This may result in confidential employee information being used for unlawful purposes, including identity theft, and cause harm, embarrassment, inconvenience or unfairness to the individual whose information is obtained.

#### RECOMMENDATION

HRD – IBD should develop written policies to physically safeguard employee benefit files.

#### RESPONSE FROM HRD - IBD

***“HRD is in agreement with this finding. While physical files are maintained in a secure area and access to those files is limited exclusively to members of the Insurance & Benefits Division, HRD agrees there needs to be a written policy and documented business process.***

***“With the advent of the PeopleSoft platform, it is anticipated that files will be stored electronically. However, the use of paper/physical files will never truly disappear and the establishment of measures directed toward protecting the Personal Health Information (PHI) of the employees and dependents of the City of Albuquerque group health plan is a major priority for the division.***

***“The Insurance & Benefits Division will also schedule “HIPAA awareness” training on annual basis in coordination with the City’s contracted group health consultants. The Health and Insurance Portability and Accountability Act of 1996 addresses many of the concerns regarding PHI. IBD will utilize the training material supplied by the US Department of Health & Human Services to train all division staff. Along with the review of HIPAA policies, the team of Insurance & Benefits Division will also review any and all related City Personnel Rules and Regulations such as those mentioned in 301.16.***

***“Written procedures are currently being developed to ensure the chain of custody for PHI files and to formalize the creation, maintenance, tracking and retention of all records. Formal policy and procedure addressing the protection of employee health records will be submitted to the CAO for approval by the end of FY/09. The Insurance & Benefits Division looks to formalize the duties for records handling and designate the responsibilities appropriately.”***

3. HRD – IBD SHOULD COMPLETE PERIODIC AUDITS OF INTERGOVERNMENTAL AGENCIES AS REQUIRED BY CONTRACT.

OIAI obtained a list of 14 Intergovernmental Agencies (IA) who piggy backed on the City’s insurance plans during FY08. OIAI reviewed a statistical sample of five IA agreements to determine if the City fulfilled its requirements under the terms of the contract as follows:

- Conduct periodic audits of IA eligibility, enrollment, verification, payment, reconciliation and other criteria designed to assure the program is being administered in accordance with the provisions of the agreement and group provider agreements.
- Assist the IA with benefits staff training, interpretation of provider agreements and advocating on behalf of employees in administering the benefits program.
- Assist the IA in conducting open enrollment meetings and in otherwise providing technical benefit interpretations and explanations.

OIAI determined HRD – IBD fulfilled all but one of the above contract terms for the five IAs tested. In 5 of 5 instances (100%), the City did not conduct periodic audits of IA eligibility, enrollment, verification, payment, reconciliation and other criteria as required by the IA agreements.

HRD - IBD management stated this step had not been performed on IAs for years and was an oversight on the part of the IBD staff.

The standard intergovernmental agreement contract for employee benefits programs between the City and IAs, Section B 1, requires the City to conduct periodic audits of IAs.

If HRD - IBD does not conduct periodic audits as required by the IA agreements, the City is not meeting the terms of the contract.

RECOMMENDATION

HRD – IBD should complete periodic audits of IAs as required by the IA agreements.

RESPONSE FROM HRD - IBD

***“HRD is in agreement with this finding. As of Fall 2008 the Insurance & Benefits Division has reinstated the process of physically visiting and auditing all participating entities to ensure compliance with the written agreements by both the City and the participating entity. The preliminary audits commenced in August 2008 and were completed in September 2008. The positive feedback received from these meetings was beneficial and will be helpful as the Insurance & Benefits Division begins to train additional staff to conduct these ongoing audits and orientations.***

***“Audits of the fifteen agencies with Inter-government Agreements will be conducted annually by the close of the fiscal year to ensure compliance with each scope of agreement.***

***“The senior staff of Insurance & Benefits Division will be responsible for the development, maintenance, and administration of all inter-governmental agreements to ensure all units of the Division are aware of the contents and their respective responsibilities associated with these agreements.”***

4. HRD – IBD SHOULD ENSURE IA ANNUAL FEES ARE BILLED AND COLLECTED BY THE CITY IN A TIMELY MANNER.

OIAI obtained a list of 14 IAs who piggy backed on the City’s insurance plans during FY08. OIAI reviewed a statistical sample of five IA agreements to determine if the City received the fee revenue contracted in the IA agreements.

In one instance (20%), the City did not bill or receive a \$600 annual fee required by an FY08 IA agreement.

HRD - IBD stated the annual fee was overlooked and an accounts receivable was not set up.

The standard intergovernmental agreement for employee benefits programs requires the IA to pay the City a negotiated annual fee. The annual fee is payable in full by the end of the first calendar quarter and shall be paid to the City upon receipt by the IA of a requisition for payment.

If the City does not bill and collect payment from the IA in accordance with the agreements, revenue will be lost. Uncollected revenues may cause the City financial statements to be misstated.

RECOMMENDATION

HRD – IBD should ensure IA annual fees are billed and collected by the City in a timely manner.

RESPONSE FROM HRD – IBD

*“HRD is in agreement with this finding. An Accounts Receivable record was not created when the Village of San Ysidro joined the City of Albuquerque benefit program. In September 2008, the Insurance and Benefits Division prepared an Accounts Receivable Form to record past and future and monies owed. As of January 2009 San Ysidro has already submitted annual fees for the current fiscal year.*

*“The Insurance and Benefits Division is currently developing a process to monitor the administrative fees owed pursuant to its Intergovernmental Agreements to ensure that these annual fees are billed and collected in a timely manner. These policies and procedures will be submitted to the CAO for approval by the end of FY/09.”*

5. HRD – IBD SHOULD ENSURE PERSONNEL DO NOT ACCEPT PREMIUM PAYMENTS FROM THE IAs IN ACCORDANCE WITH THE AGREEMENTS.

OIAI interviewed HRD – IBD personnel to determine how external IA premium payments are received and processed. An HRD – IBD employee received premium checks from two separate IAs and in turn forwarded those payments to the insurance providers.

HRD - IBD stated it was normal practice to forward premium payments to the insurance providers when the IA sends the payment directly to the City.

The standard intergovernmental agreement contract for employee benefits programs requires the IA to make advance monthly premium payments directly to the provider. Both FY08 IA agreements reviewed include this requirement.

If HRD - IBD allows personnel to handle premium payments from the IAs, the City could be responsible if the provider does not receive payment.

### RECOMMENDATION

HRD – IBD should ensure personnel do not accept and/or forward premium payments received from the IAs.

### RESPONSE FROM HRD – IBD

*“HRD is in agreement with this finding. In August 2008 when the issue was identified, all staff members were instructed on the correct procedure. IBD will review the process with employees on a regular basis (but no less often than once a year when IAGs are renewed) to ensure staff is kept aware of current business practices. Additionally, all senior staff will have an essential role in developing Intergovernmental Agreements to ensure that each section within the division is well versed regarding the provisions of each IGA and their respective responsibilities and duties.*

*“As policies and procedures for each of the areas identified in Findings 1 through 5 above are finalized, the duties and responsibilities assigned to IBD staff will be incorporated into their PEG or EWP as appropriate.”*

### CONCLUSION

HRD – IBD should develop a process to ensure employees who are on LWOP reimburse the City and receivable accounts are set up. Internal controls should be developed to physically safeguard employee benefit files. HRD – IBD should make every effort to ensure the City is in compliance with the terms of the employee benefit IA agreements. OIAI believes the recommendations noted above will help the HRD - IBD achieve program goals.

We appreciate the assistance and cooperation of HRD - IBD personnel during the audit.

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Principal Auditor

REVIEWED:

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Audit Manager

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Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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