



Office of Internal Audit

Report to the Interim Chief
Financial Officer and the Director,
Payroll/Benefits

November, 2016

FINANCE DIVISION

Management Letter:
Employee Medical and
Dental Insurance Benefits

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.



16 November 2016

Patricia Koch, Ph.D.
Interim Chief Financial Officer

Sue Weir
Director, Payroll/Benefits
Finance Division
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2684

Management Letter: Improvements Are Needed to Enhance the Finance Division's Internal Controls and Processes for Medical and Dental Insurance Costs and Liabilities

On 16 November 2016, the Office of Internal Audit (OIA) issued our report on the *Finance Division: Follow-up Review of the Audit of Medical and Dental Insurance Liabilities*. We initiated this follow-up review to determine the actions taken by the Finance Division to implement the recommendations included in our report *Audit of the Medical and Dental Insurance Liabilities* dated 4 September 2014.

The District provides health and dental insurance benefits for approximately 36,000 employees, retirees, and dependents. This necessitates an expenditure of approximately \$192 million in annual medical and dental insurance premiums.

Beginning 1 January 2016, the District entered an agreement with the California Schools – Voluntary Employee Beneficiary Association (CS-VEBA) to provide dental insurance, including the administrative functions, for the District's eligible employees, retirees, and dependents. Prior to this date the San Diego Unified School District maintained the administrative functions for the dental benefits.

The purpose of this report is to present the internal control deficiencies identified in our follow-up that are not considered to be a material weakness or a significant deficiency¹ but nonetheless warrant management's attention. This report presents recommendations to address these control deficiencies. This report is intended for the use of the San Diego Unified School District's management.

¹ A material weakness is a deficiency, or a combination of deficiencies, in internal controls over the medical and dental insurance costs and liabilities, such that there is a reasonable possibility that a material misstatement of the San Diego Unified School District's financial statements will not be prevented, detected or corrected, on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, and correct misstatements on a timely basis.

Results in Brief

During our follow-up review on the medical and dental insurance liabilities, we identified two deficiencies that we do not consider to be either a material weakness or a significant deficiency either individually or collectively. But these weaknesses do warrant the Finance Division's management attention. These control deficiencies are related to

- mismatches in the PeopleSoft Benefits Application tables impacted benefit terminations, and
- differences in the amounts charged by the carrier and billed to the retirees.

This report contains two recommendations pertaining to these control deficiencies. These recommendations are intended to improve the Finance Division's operation of the medical and dental health care benefit programs.

Objectives and Scope

Our objectives of the follow-up review were to determine whether the Finance Division:

- took effective action to implement the recommendations included in the original report;
- verified that the District's system of internal control provided a reasonable assurance that the:
 - health insurance payment process safeguarded the District's assets and provided reliable data,
 - individuals covered by the medical and dental insurances were eligible for benefits, and
 - health insurance payment process complied with the applicable laws, regulations, Board of Education policies, and District administrative procedures;
- Determine whether the accrued medical and dental liabilities were accurately determined for fiscal year 2015; and
- Verified the accuracy of the medical and dental insurance rates entered into the PeopleSoft Human Capital Management System.

During the course of our work, we communicated the results of our findings to the Finance Division and the Payroll/Benefits Department.

Internal Control Deficiencies Identified in Our Follow-up Review

Mismatches in the PeopleSoft Benefits Application Cause Delayed Terminations

Condition. Our testing identified the delayed termination of one former employee due to a mismatch of two tables in the PeopleSoft Benefits Application. In order for an employee's benefits to be terminated in PeopleSoft, several tables within the Benefits Application must have matching statuses. We identified one individual who was not terminated from receiving medical and dental insurance benefits until approximately six months after they actually terminated from the District.

The Payroll/Benefits staff told us that Human Resources erroneously selected a code in the Benefits Administration System (BAS) that was not equated to a termination by the Payroll/Benefits staff. When

Payroll/Benefits reviewed the entries in BAS, the erroneous code entry was not recognized to process the termination for the former employee's benefits.

Cause. Erroneous data entry by the Human Resources staff in BAS.

Criteria. For an employee to be terminated from employee benefits, Human Resources selects a termination code in BAS. This code is identified by Payroll/Benefits who process the change to affect the employee's benefit status.

Effect. We identified one individual who was not terminated timely. The District expended approximately \$8,607 unnecessarily.

Recommendation. The Chief Financial Officer and the Director, Payroll/Benefits should consider developing an automated application to verify that key tables within the Benefits Application and other PeopleSoft subsystems have matching data.

Difference in the Premium Rate Billed by Carrier and Charged to the Retiree

Condition. Retirees enrolled in the Delta Dental Care plan were overcharged \$0.54 monthly due to a transposition of the rate by the Payroll/Benefits Department. The Delta Dental Care plan billed the District \$35.17 for each retiree in the plan. The District, in turn, was to bill the same amount to the retiree. Due to a transposition error in the billing data, the District overbilled each retiree in this plan for fiscal year 2015.

Criteria: The District's health care payment system is to mirror the rates charged by the carriers. This allows the District to ensure that it has the proper amount accrued for these costs.

Cause. Absence of periodic verification of carrier premiums to the rates charged to retirees for dental insurance coverage

Effect. The retirees participating in this plan were overbilled by the District \$390.42. With the transfer of the dental insurance procurement and benefit administration functions to CS-VEBA, the Finance Division's management expects this condition to be resolved.

Recommendation. The Director, Payroll/Benefits should ensure that the staff periodically verifies the rates charged by the carriers with those billed to the retired employees participating in the District's medical and dental insurance.

Contributor

Susan Jarrold, an Audit Manager in OIA, was the principal auditor for this project and the principal contributor to this report.

— — — —

We are providing copies of this report to the Board of Education, Audit and Finance Committee, Superintendent of Public Education, the General Counsel and the Chief of Staff. This report will be available on the District's website at <https://www.sandiegounified.org/audit-reports>.

Should you have questions regarding this report or our work, please contact Susan Jarrold at 619.725.5697 or sjarrold@sandi.net or me at 619.725.5696 or cashmon@sandi.net.

A handwritten signature in blue ink, appearing to read "John M. Cashmon".

John M. Cashmon
Director, Internal Audit