

TO: Jenny Salkeld, Chief Financial Officer
FROM: Carmina Duran, Executive Director, Quality Assurance Office
DATE: September 5, 2014
RE: Medical and Dental Benefits Liabilities Audit Report

A handwritten signature in black ink, appearing to be 'Carmina Duran', written over the 'FROM:' line of the header.

Our office conducted the Medical and Dental Benefits Liabilities Audit requested by the Finance Division Management for Fiscal Years 2006/2007 through 2012/2013. The audit report contains information regarding the audit findings and recommendations. Enclosed are copies of the audit report and the response from the auditee's department.

The Finance Division was responsive to Findings 1 through 4 and Findings 6 and 7 and corrective action has been taken. The steps necessary to address Finding 5 are in process and have not been implemented. A follow-up audit to ensure corrective action has been implemented is planned for February 11, 2015.

If you have any questions concerning the information in this report, please call me at 619-278-6766.

c: Members, Board of Education
C. Marten
U. Kroemer

San Diego Unified School District
Medical and Dental Benefits Liabilities Audit Report

June 27, 2014

INTRODUCTION

The Office of Internal Audit was requested by the Finance Division management to determine whether the \$6,139,264 medical liability balance and the \$1,140,516 dental liability balance at 06/30/2012 were over accrued and represented recoverable amounts.¹ Internal Audit continued with audit of the reporting and processing of the medical and dental benefit payments and the Employee Benefits Department procedures through 3/31/2014.

BACKGROUND

San Diego Unified School District (district) medical benefits are managed by the Voluntary Employees Benefits Association (VEBA), a tax-exempt trust. The trustees have a fiduciary responsibility to administer the plan for the participating employees, retirees and their dependents. VEBA has managed the district's medical benefits since January 1, 1994. VEBA is governed by a volunteer board comprised of six labor directors, appointed by the state affiliate for the local employee organizations participating in VEBA; six management directors, each from a district that participates in a medical plan offered by VEBA; two alternate labor directors and two alternate management directors. The district is represented by a director out of the sixteen positions on the VEBA Board. The district accounts for 28.71% of VEBA's membership.

The district and the district unions are parties to collective bargaining agreements that negotiated the district's use of VEBA for the purpose of providing health and welfare benefits. VEBA contracts with a third party administrator, McGregor and Associates to administer the medical plans. The district pays monthly premiums to VEBA. Included in this premium payment are fees for McGregor and Associates' administrative services. The district's current two medical carriers are Kaiser and United Healthcare.

The district's monthly dental benefits premiums are district administered and not administered by VEBA. The district negotiates and remits directly to the dental carriers. The district's current dental carriers are Western Delta, Delta Care USA and Delta Dental PPO.

¹ The medical and dental liabilities transactions are included in the district's general ledger account 9514, Employer Liability Account. This account includes other employer liability transactions, such as the employer retirement contributions and employer payroll taxes. Financial Accounting separately tracks the balance for each employer liability.

The district pays the full premium for medical and dental benefits for all active employees and their dependents. Active employees are salaried positions that work half-time or more. Employees in job share assignments pay a pro-rata share of the cost of coverage. Employees who separate from the district due to retirement and employees on district approved unpaid leave may continue their medical insurance coverage by remitting the required fees to the district.

When an employee loses health coverage due to termination, layoff, or reduction of hours, the employee may continue coverage under COBRA² by remitting monthly fees to the district.

As of 2/1/2014, the number of eligible participants enrolled in the district's medical benefits plans included 12,061 employees, 3,154 retirees, and 19,603 dependents (includes spouses) at a monthly premium cost of \$15,083,904. The number of eligible participants enrolled in the dental benefits plans includes 12,190 employees, 3,578 retirees, and 19,125 dependents (includes spouses) at a monthly premium cost of \$1,144,501.

The general ledger medical and dental transactions recorded to the Employer Liability Account primarily include the monthly carrier premium payments, and the offsetting employer liability processed through the district's payroll system (referred to as employer contributions). Month end balances in the general ledger result from the accrual method and errors. The accrual method is due to employer contributions being applied over 10 months, due to 68% of the employees not being paid in July and August. The premiums payments are paid over 12 months with a rate increase being applied in January. For the time period 6/30/2006 to 6/30/2012, the medical liability credit balance increased from \$2,218,628 to \$6,139,264, and the dental liability credit balance increased from zero to \$1,140,516.

ELIGIBILITY AND PAYMENT PROCESS

Eligibility Data

New employees eligible to receive benefits and existing eligible employees with coverage changes must complete an enrollment form. Former eligible employees selecting COBRA and retired employees who choose to continue coverage, must also complete an enrollment form. The enrollment data is input into the district's PeopleSoft Benefits Administration System (BAS) by Employee Benefits. During open enrollment, the existing eligible employees can make changes to their employee benefits online in BAS through self-service. If the changes include new dependents, an enrollment form must be completed.

Event changes to the employee's job data such as termination, death, retirement, and leave of absence are input by Human Resources. Human Resources input triggers events in BAS. Employee Benefits reviews these events before running the transactions through BAS to process changes to the employee's benefit status.

Benefits Billing Process for Retirees, COBRA and Unpaid Leave

The Fiscal Control Department receives, records, and deposits payments processed by the Employee Benefits Department for retirees, employees on district-approved unpaid leaves of absence, and COBRA participants who elect to continue coverage. Seventy-five percent of the payments are set up for

² COBRA is a Federal law that provides for health care coverage to employees whose coverage would cease due to termination, layoff, or certain other changes in their employment status. COBRA participants are generally entitled to pay for group coverage up to 18 months. In special circumstances, a participant will be permitted to extend his or her coverage for a maximum of 36 months.

automatic debit to the participants' accounts. The Employee Benefits generate a monthly Delinquent Accounts Report that they use for collection action.

Medical Eligibility and Payment Process

Each week, the district sends secured electronic interface files containing employee benefits and demographics data to McGregor and Associates. These files include eligible employees, dependents and employee termination information. McGregor and Associates' eligibility and accounting system processes the district's eligibility information and updates their demographic changes. McGregor and Associates' system produces reports which are analyzed for changes from the previous data set. Changes from this analysis are input into McGregor and Associates' system. By the second to last Friday of the month, all of the updated eligibility information must be input into McGregor and Associates' system. The billing period is closed and no more eligibility changes are made for that billing period. The eligibility information is sent to Kaiser and United Healthcare, and they produce an invoice for the district based on the enrollment information. The district does not pay from this invoice, but pays from its Monthly Premiums Report (a.k.a. Monthly Summary Report). Timing differences and errors between the invoice and the report occur. The district and VEBA started reconciling these differences as of 1/1/2014.

Dental Eligibility and Payment Process

Each week, the district sends secured electronic eligibility files to the three dental carriers. The dental carriers process the district's files and produce reports showing additions, terminations, and plan changes. Monthly invoices are prepared by two of the three carriers and sent to the district. The district does not pay from these invoices, but pays from its Monthly Premiums Report for all three dental carriers. If any differences exist between the district's Monthly Premiums Report, and the dental carrier's invoices, employee benefits works with the dental carriers directly to resolve the differences.

District Monthly Premiums Report

At the beginning of each month, the Employee Benefits extracts data from PeopleSoft for each benefit plan in order to prepare a Monthly Premiums Report for each medical and dental carrier. The Monthly Premiums Report shows the total number of eligible employees, retirees and COBRA participants in each plan and total premium amounts due to VEBA and the dental carriers. Included in the Monthly Premiums Report are the prior month's adjustments (i.e. additions, terminations, and plan changes). Copies of the Monthly Premiums Report are then sent to Fiscal Control for issuing payment to the dental carriers and VEBA.

AUDIT SCOPE AND OBJECTIVES

To test for accuracy of the rates input to BAS, a sample of medical and dental Monthly Premiums Reports was reviewed and reconciled to the district's monthly employer contributions for Fiscal Years 2006/2007 through 2012/2013. This time period was selected because of the substantial increase in the medical and dental liability balances. A sample of VEBA's invoices for 2013/2014 was reconciled to the district's Monthly Premiums Reports to determine that the eligibility data agreed between the district and VEBA. To provide an audit understanding of the district-VEBA payment process, Employee Benefits and Internal Audit held meetings with VEBA and dental carriers to gain an understanding of the process and procedures for the Employee Benefits System and payment process.

The specific objectives of this audit were to:

- Determine that general ledger medical and dental transactions recorded to the Employer Liability Account were accurate and properly supported.
- Determine that the internal controls are sufficient for the medical and dental benefits payment process.
- Determine that rates set-up in BAS for eligible employees agree to the published rates issued by VEBA and the dental carriers.
- Determine that employees included on the Monthly Premiums Report agree to the enrollment data and the interface files sent to McGregor and Associates.
- Determine that premiums payments and employer contributions were accurate.
- Verify that Monthly Premiums Reports contain no duplicate employees.
- Determine that retirees and employees on unpaid leave are not delinquent in their remitted fees.

AUDIT FINDINGS

1. **Beginning July 1, 2006 and through June 30,2012, a credit accumulation grew to \$6,728,391 for the medical liabilities, and \$1,326,485 for the dental liabilities accounts by over-accruing using an adjusted ten months employer contribution cycle to account for paying the providers over twelve months.**
2. **Errors found in transactions sampled through 6/30/2013, caused an understatement of \$1,086,951 for the medical liability and an overstatement of \$44,548 for the dental liability.**
3. **The employer contributions for laid off employees for Fiscal Year 2008/2009 were not recorded, understating the medical liability balance by \$773,369 and the dental liability balance by \$138,260.**
4. **Staff incorrectly calculated journal entries to adjust for liability account differences that resulted in a \$703,667 understatement of the medical liability balance and a \$341,915 overstatement of the dental liability balance.**
5. **Medical Premiums were paid for ineligible terminated employees and leave of absence employees resulting in overpayments of \$94,597 to the carriers.**
6. **Employees in the COBRA plan cancelled their health benefits while the district continued to pay their premiums to VEBA, resulting in overpayments of \$65,176 to VEBA.**
7. **The audit found errors in employee pro rata cost of coverage calculations that resulted in underpayments of \$21,884 by job share employees.**

CONCLUSION

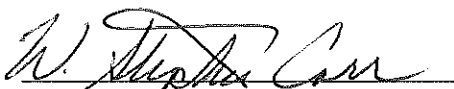
The district's medical and dental liability balances were over accrued by \$6,728,391 and \$1,326,485 respectively as of 6/30/2012 (Finding 1). This is due to the annual premium rate increases for employer contributions accruals being at a higher monthly rate than the monthly rate for premium payments to VEBA. The district processes accruals for 10 months (tenthly) a year and pays premiums 12 months (twelfthly) a year. Employer contributions are accrued over 10 months since 68% of the employees are not paid in July and August, and the employer contributions are processed through the payroll system. Payments to VEBA for the months of July and August are not offset by district accruals. During the tenthly accruals, the district factors a higher rate, to compensate for the July/August non-accrued months.

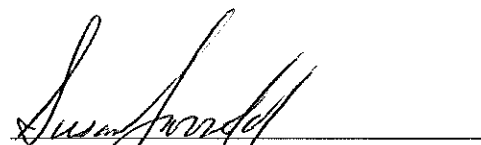
Management as a component to year-end processing, should assess and adjust the year-end account balance to correct for the over stated accrual.

Internal Audit found errors in the recording of the employer contributions and processing of premium payments. These errors resulted in an understatement of \$2,615,292 to the medical liability balance and an overstatement of \$248,203 to the dental liability balance (Findings 2 through 7). The majority of these errors are due to employee changes (terminations, layoffs, leave of absence) and rate errors that a monthly reconciliation process would remedy by detecting the errors. The district accounts with a Monthly Premiums Report and VEBA creates an invoice from their system. Prior to the audit, there was no interchange between VEBA and Employee Benefits in resolving the discrepancies or reconciling differences between the Monthly Premiums Report and VEBA's invoice. In order to resolve the audit findings, a meeting of Internal Audit, Benefits Administration and VEBA was held to develop a reconciliation process governing the eligibility and enrollment data. Management promptly implemented a reconciliation between the Monthly Premiums Report and VEBA's invoice. In addition to the reconciliation between the Monthly Premiums Report and the VEBA's invoice, management must also implement a reconciliation between the Monthly Premiums Report and the employer contributions.

The Employee Benefits Department was understaffed, having three vacant positions of the full six staffing complement. During the course of the audit, these positions became staffed as of 11/8/2013. As of 2/28/2014, VEBA's records and the dental carriers' records confirmed that the district is current with all premium amounts due. Management must continue to implement effective internal controls to detect and prevent errors found in this audit.

We appreciate the cooperation extended by the Employee Benefits staff and management during the examination.


W. Stephen Carr
Director, Office of Internal Audit


Susan Jarrold
Audit Manager

AUDIT FINDINGS AND RECOMMENDATIONS

1. **Beginning July 1, 2006 and through June 30,2012, a credit accumulation grew to \$6,728,391 for the medical liabilities, and \$1,326,485 for the dental liabilities accounts by over-accruing using an adjusted ten months employer contribution cycle to account for paying the providers over twelve months.**

The district processes accruals for 10 months (tenthly) a year and pays premiums 12 months (twelfthly) a year. Employer contributions are accrued over 10 months since 68% of the employees are not paid in July and August. Payments to VEBA for the months of July and August are not offset by district accruals. During the tenthly accruals that start September, the district factors a higher rate, to compensate for the July/August non-accrued months. The premium rate for medical and dental benefit increases each January and pays on a 12 month basis from January through December, while the employer contributions through payroll are recorded on a 10 month basis from September through June. Throughout a yearly cycle, the debit and credit entries will balance **if** there is no increase in the premium rate or no change in the employee’s benefits (plan changes, terminates, family leave of absence, etc...); however, due to the rate increase and employee’s benefits changes, the Employer Liability Account balance is overstated at the end of each fiscal year (June 30). For Fiscal Years 2006/2007 through 2011/2012 this overstated balance was \$6,728,391 for the medical liabilities, and \$1,326,485 for the dental liabilities.

The schedule below shows the impact of the accrual error on the medical liability balance happening from Fiscal Year 2005/2006 through Fiscal Year 2011/2012.

The Medical Benefits Liability Balance			
Date	Balance at Fiscal Year End	Balance Increase/ Decrease	Credit Accumulation
6/30/2006	\$2,218,628	2,218,628	1,214,343
6/30/2007	4,361,410	2,142,782	835,266
6/30/2008	6,281,678	1,920,268	1,124,401
6/30/2009	6,341,189	59,511	864,050
6/30/2010	8,071,797	1,730,609	1,624,610
6/30/2011	7,445,935	(625,863)	274,258
6/30/2012	6,139,264	(1,306,670)	791,463
		<u>\$6,139,264</u>	<u>\$6,728,391</u>

The schedule below shows the impact of the accrual error on the dental liability balance happening from Fiscal Year 2006/2007 through Fiscal Year 2011/2012.

The Dental Benefits Liability Balance			
Date	Balance at Fiscal Year End	Balance Increase/ Decrease	Credit Accumulation
6/30/07*	\$0		
6/30/08	\$850,710	\$850,710	\$1,062,868
06/30/09	697,538	(153,172)	**
06/30/10	783,673	86,135	75,884
06/30/11	1,268,318	484,645	143,874
06/30/12	1,140,516	(127,802)	43,859
		<u>\$1,140,516</u>	<u>\$1,326,485</u>

(*) Prior to 1/1/2007, the dental benefits transactions were maintained in a separate fund. This fund was subsequently closed.
 (**) Dental premium rates remained the same for 2008 and 2009, thus, no impact.

Recommendation

The Finance Division should calculate the over accrual as of June 30th for each fiscal year-end, and adjust for the overstatement of the accrual.

2. Errors found in transactions sampled through 6/30/2013, caused an understatement of \$1,086,951 for the medical liability and an overstatement of \$44,548 for the dental liability.

Internal Audit found errors affecting the recorded employer contributions. These errors were due to miscalculation of employer contributions rates for active employees and for job share assignments, and due to an under accrual of employer contributions for employees who terminated or took a leave of absence. For the time periods tested, there was no process in place to review the inputted medical and dental rates. The premium rates are input for a substantial number, 500 benefit plan configurations, for the district’s 15,000 plus employees/retirees and require a calculation conversion from a 12thly rate to a 10thly rate. For Fiscal Year 2012/2013, management developed a review process to verify the accuracy of medical and dental rates input to BAS. In addition to the rate errors, there is no process in place to accurately record the employer contributions for employees terminating and on leave of absence. These errors are noted in Items a through f.

Item	Medical Liability --Brief Description of Error	Overstatement <Understatement>
a	For January through December 2006, the employer contributions rates for the United Healthcare Plans were set up incorrectly in BAS rate tables, resulting in an overstatement of \$134,418 for the medical liability balance.	134,418
b	For the months of October, November, and December 2011, the employer contributions rates for the Kaiser Plan were set up incorrectly in BAS rate tables. Up to 1,280 employees were affected by this, resulting in an understatement of \$1,059,133 for the medical liability balance as of 12/31/2011.	(1,059,133)

Item	Medical Liability --Brief Description of Error	Overstatement <Understatement>
c	For January 2012 through June 2013, Internal Audit analyzed all job share assignments. Thirty-three errors were found when examining the employer contributions for job share assignments. This resulted in \$55,873 understatement for the district's Employer Liability Account.	(55,873)
d	The medical liability balance is understated for employees on family leave of absence and industrial accident leave of absence. Employees are eligible for health benefits during the family leave of absence or industrial accident leave for a period of time. During the months the employee is on leave of absence and covered for benefits, the employee does not get paid, and the corresponding employer contributions are not accrued. Internal Audit analyzed a sample of twenty-five employees on leave of absence for the Fiscal Year 2013, and determined that the employer contributions were understated by \$87,799	(87,799)
e	The medical liability balance is understated for employees who terminate during the fiscal year. Internal Audit analyzed a sample of four employees who terminated during the Fiscal Year 2012/2013, and determined that the employer contributions were understated by \$18,564.	(18,564)
Total Affecting Medical Liability Balance		(1,086,951)

Item	Dental Liability --Brief Description of Error	Overstatement <Understatement>
f	For Calendar Year 2011, the Delta PMI dental rates were entered incorrectly for the employer contributions, resulting in an overstated amount to the Employer Liability Account of \$44,548.	44,548
Total Affecting Dental Liability Balance		44,548

Recommendation

Entries should be made to the Employer Liability Account to correct the errors. Management must continue to review the accuracy of medical and dental rates input. Management should develop a process to account for the under accrual of employer contributions for employees terminating and on leave of absence. All of the above errors can be detected by performing a monthly reconciliation between the employer contributions and premiums paid; management should implement this reconciliation process.

- The employer contributions for laid off employees for Fiscal Year 2008/2009 were not recorded, understating the medical liability balance by \$773,369 and the dental liability balance by \$138,260.**

Laid off employees are contractually eligible for health benefits if the layoffs occur in June or July, and the district paid coverage will continue through September of the same year. Laid off employees do not receive paychecks; therefore, no employer contributions are recognized through the payroll system. For Fiscal Year 2008/2009, the Finance Division did not have a process in place to report the employer contributions for the laid off employees. Based on the number of laid off employees per data sent from the Human Resource Department, and having audited the employer contributions in September, Internal Audit estimated an understatement for the employer

contributions totaling \$773,369 for the medical liability account and \$138,260 for the dental liability account.

Starting in Fiscal Year 2011/2012, the Finance Division had a process in place to calculate the employer contributions for the laid off employees and prepared a journal entry to record the accrual.

Recommendation

Entries should be made to the Employer Liability Account to correct the error. The Finance Division should continue to account for the employer contributions for laid off employees and prepare a journal entry to record the accrual. Having Employee Benefits reconcile the employer contributions to the premiums would benefit the Finance Department in approximating the correct amount to record.

- 4. **Staff incorrectly calculated journal entries to adjust for liability account differences that resulted in a \$703,667 understatement of the medical liability balance and a \$341,915 overstatement of the dental liability balance.**

Internal Audit reconciled the employer contributions to the premiums paid. The amount reconciled did not agree to the entries posted to the medical and dental liability balances. There is no process in place to reconcile the employer contributions to the premiums paid.

Medical or Dental	Journal Entry --Brief Description of Error	Accrual Overstated <Understated>
Medical	Journal entries (PAY0239065, PAY0239187) were recorded to the Employer Liability Account in March 2011 to correct January and February 2011 employer contributions rate errors, however, this entry was understated by \$325,774.	(325,774)
Dental	Journal entries (PAY0238990, PAY0239065, PAY0239187) were recorded to the Employer Liability Account in March 2011 to correct the January and February 2011 Dental PPO and PMI rate errors. However, this entry was overstated by \$341,915.	341,915
Medical	Laid off employees are eligible for health benefits if the layoffs occur in June or July. The district paid coverage will continue through September of the same year. For Fiscal Year 2011/2012, the Finance Division recorded the employer contributions for the laid off employees (Journal Entry 0000272655). Journal Entry 0000272655 excluded the laid off employees who were recalled in September; however, Internal Audit noted that the September 2011 employer contributions were not accrued for the recalled laid off employees. This resulted in an understatement totaling \$377,893. This amount is estimated based on the number of laid off employees per data sent from the Human Resource Department, and having audited the employer contributions in September 2011.	(377,893)

Recommendation

The Finance Division has made adjusting entries to balance the Employer Liability Account at the 6/30/2013 accounting period. Non-standard non-recurring journal entries affecting the medical and dental liability accounts should be reviewed with Employee Benefits. A monthly reconciliation between the employer contributions and the Monthly Premiums Report will assist the Finance Division in reporting accurate amounts to the medical and dental liability.

5. Medical Premiums were paid for ineligible terminated employees and leave of absence employees resulting in overpayments of \$94,597 to the carriers.

Five terminated employees and two employees on leave of absence were included on the Monthly Premiums Report; however, there were no monthly employer contributions since the employee's pay was inactive. The Monthly Premiums Report is derived from the eligible employees in BAS and the employer contributions are derived from the payroll system distribution data. Internal Audit found these errors when reconciling the Monthly Premiums Report with the employer contributions. These errors occurred from 8/2007 through 3/2013. Two of the event changes were not input by the Human Resources Department; therefore, the Employee Benefits could not review the input and release the transactions to process and change the employee's benefit plan. The cause for the other errors could not be determined by Human Resources or Employee Benefits. Currently there is no process in place to compare the inactive employees with the premiums paid for medical and dental benefits. The overpayments are not recoverable.

Recommendation

Employee Benefits must implement a process to reconcile the Monthly Premiums Report and the employer contributions to detect these errors.

6. Employees in the COBRA plan cancelled their health benefits while the district continued to pay their premiums to VEBA, resulting in overpayments of \$65,176 to VEBA.

Errors occurred from 10/2011 through 8/2013 where benefits processing paid for the terminated employees. Of the six ex-employees, four had been paying for their health benefits. Two employees never paid any fees. Although the six ex-employees did request termination of their health benefits, and were identified as inactive billing status in BAS, payments by the district for their benefits coverage were processed. The overpayments are not recoverable.

These errors occurred because billing statements were not generated since the billing enrollment was deactivated; however, the election tab in the system was active, which resulted in monthly processing of premiums. Internal Audit found these errors by identifying the employees on the Monthly Premiums Report under the COBRA plan and verifying that the employees were making payments in the billing system. Employees under the COBRA plan do not have district coverage and therefore, would not be included with the employer contributions. A monthly reconciliation between the Monthly Premiums Report and employer contributions would not detect these errors.

Recommendation

Based on the audit, Employee Benefits has implemented a query to identify employees with paid premiums and inactive billing status.

7. The audit found errors in employee pro rata cost of coverage calculations that resulted in underpayments of \$21,884 by job share employees.

Employees having job share assignments are to pay premiums to the district for a portion of their coverage. Internal Audit tested all premiums paid for job share assignments and found that six of the twenty-five employees were underpaying their pro rata share cost of medical coverage. The time period tested by Internal Audit was from January 2012 through June 2013. (Note that Item (f) for the job share error noted under Finding #2 relates to the employer contributions and not the employee's share.)


The Employee Benefits staff member responsible for processing the job share rates for the time period tested, terminated his employment. Internal Audit was not able to determine the reason for the errors. At the time of this finding, the current management temporarily assigned the system analyst to review all input rates for the job share assignments.

Recommendation

The Employee Benefits management needs to assure that a practice is in place to periodically review and assess the job share assignments pro rata cost of coverage.



TO: W. Stephen Carr, Director, Office of Internal Audit

FROM: J. Salkeld


DATE: September 2, 2014

SUBJECT: **MEDICAL AND DENTAL BENEFITS LIABILITIES AUDIT REPORT**

BACKGROUND

Susan Jarrold, Audit Manager, completed an audit of the Medical and Dental Benefits Liabilities for the period of 2006-2013. This document provides the formal written response to the resulting findings in the audit report (attached).

AUDIT FINDINGS

1. Beginning July 1, 2006 and through June 30, 2012, a credit accumulation grew to \$6,728,391 for the medical liabilities, and \$1,326,485 for the dental liabilities accounts by over-accruing using an adjusted ten months employer contribution cycle to account for paying the providers over twelve months.

Corrective Action: Based on the recommendation in the audit report, a restatement journal was posted on June 30, 2013 for both medical and dental for overstated liabilities for fiscal years 2006/2007 through 2011/2012. For fiscal year 2012/2013 and 2013/2014, an adjustment journal was made on June 30, 2014 for an overstatement to the medical liability and for an understatement to the dental liability. As an ongoing practice, at the end of each fiscal year, any overstated balance or understated balance in the respective liability accounts will be adjusted.

2. Errors found in transactions sampled through June 30, 2013, caused an understatement of \$1,086,951 for the medical liability and an overstatement of \$44,548 for the dental liability.

Corrective Action: The Finance Division concurs with the recommendation and has made adjusting entries to the Employer Liability account at the end of the June 30, 2013 and June 30, 2014 accounting periods. Management reviews the rates for accuracy once they are input and monthly reconciliations are conducted to ensure that the reporting amounts are accurate for the medical and dental liability accounts.

3. The employer contributions for laid off employees for Fiscal Year 2008/2009 were not recorded, understating the medical liability balance by \$773,369 and the dental liability balance by \$138,260.

Corrective Action: The Finance Division concurs with the recommendation and has made adjusting entries to the medical liability account and the dental liability account. Monthly reconciliations are conducted to ensure that the reporting amounts are accurate for the liability accounts. The Employee Benefits Department has a process in place to reconcile the rates versus premiums.

4. Staff incorrectly calculated journal entries to adjust for liability account differences that resulted in a \$703,667 understatement of the medical liability balance and a \$341,915 overstatement of the dental liability balance.

Corrective Action: The Finance Division concurs with the recommendation and has made adjusting entries to the Employer Liability account at the end of the June 30, 2013 and June 30, 2014 accounting periods. Monthly reconciliations are conducted to ensure that the reporting amounts are accurate for the medical and dental liability accounts.

5. Medical Premiums were paid for ineligible terminated employees and leave of absence employees resulting in overpayments of \$94,597 to the carriers.

Corrective Action: The Employee Benefits Department has implemented a comprehensive reconciliation of premium payments beginning in January, 2013. The reconciliation effort was implemented with collaboration between both the district and VEBA. The reconciliation reviews/audits current enrollment; reviews premium amounts for currently enrolled participants to assure accurate rates for each benefits plan; evaluates/audits changes to employment status in order to assure payments are stopped for ineligible employees; compares the district's official enrollment with that of the VEBA invoice to assure discrepancies are accounted for and cleared; and a single employee benefit specialist "owns" the reconciliation and prepares for review by the Manager, Employee Benefits prior to submission to Financial Accounting for payment to VEBA. Employee Benefits staff will work to reduce the error rate in this area in tandem with the reconciliation effort. During the period in question, 2006-2013, the district paid on average annual premiums of \$150 Million. This error accounts for less than 1% of total premiums paid during 2006-2013.

6. Employees in the COBRA plan cancelled their health benefits while the district continued to pay their premiums to VEBA, resulting in overpayments of \$65,176 to VEBA.

Corrective Action: The Employee Benefits Department is developing a tool to audit COBRA plan participation and participant initiated termination of coverage to assure timely termination of premium payments.

7. The audit found errors in employee pro rata cost of coverage calculations that resulted in underpayments of \$21,884 by job share employees.

Corrective Action: Employee Benefits staff are now evaluating job share percentage assignments and reconciling them with contracted evidence to assure benefit enrollments match contract and JOB data percentage assignments.

JS:cl

Enc.