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June 9, 2015

Ms. Deborah Dawson
Director
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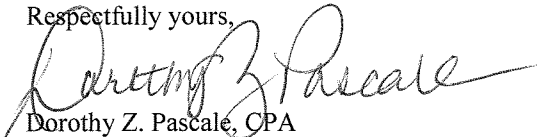
Dear Director Dawson:

The Bureau of Audits has completed its audit of the Office of Employee Benefits for fiscal year 2015. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on June 8, 2015, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

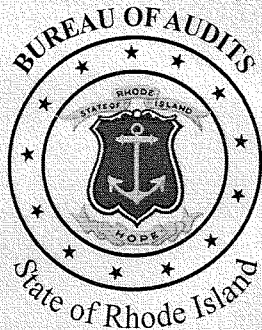
We would like to express our sincere appreciation to the staff of the Office of Employee Benefits for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,


Dorothy Z. Pascale, CPA
Chief

c- Internal Audit Advisory Group

Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Raymond Gallison, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General



AUDIT Executive Summary

Why the Bureau Did This Review

As a result of the risk assessment, the Bureau of Audits (Bureau) conducted an audit of the State of Rhode Island, Office of Employee Benefits (OEB) for the period July 1, 2014, through December 31, 2014. The purpose of this engagement was to evaluate the efficiency and effectiveness of procedures for administering State employee health benefits.

Background Information

The Division of Human Resources has the following units: Personnel Administration, Administrative Services, Classification and Examinations, Office of Employee Benefits, State Employees' Workers Compensation (SEWC), Training and Development, Employee Services, and Human Resource Service Centers. The State of Rhode Island, Office of Employee Benefits (OEB), as a subdivision of the Department of Administration, Division of Human Resources, is responsible for the enrollment and administration of various statewide employee benefit programs, including Health, Dental, and Vision Insurance.

Human Resources operations are decentralized among the following four Service Centers:

- DEM/DOT HR Service Center
- General Government HR Service Center
- Health and Human Services HR Service Center
- Public Safety HR Service Center

To Improve Controls the Office of Employee Benefits should:

- Explore opportunities to integrate State information systems.
- Develop self-service employee interface for employee benefit registration.
- Implement an electronic data exchange between the State and benefit providers.
- Create formal, written procedures to reconcile provider information to payroll information.
- Report co-share discrepancies to each respective agency on a timely basis.
- Improve the process to account for leave without pay co-share payments and document formal policies and procedures.
- Implement a unified system to track all leave without pay balances due and premium payments received.
- After a system is implemented, ensure timely reconciliation occurs.
- Centralize the collection of leave without pay premium payments in the OEB.
- Determine the statewide accounts receivable balance for employees on leave without pay and record this information to the financial statements.

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Objective and Scope

The Bureau of Audits (Bureau) conducted an audit of the State of Rhode Island, Office of Employee Benefits (OEB), for the period July 1, 2014, through December 31, 2014, as a result of the risk assessment. The purpose of this engagement was to evaluate the efficiency and effectiveness of procedures for administering State employee health benefits. The Bureau's review focused specifically on the administration of health-related benefits, including Medical, Dental, Vision, and COBRA¹ coverage.

Methodology

As part of our audit work, we gained an understanding of the process for registering and removing employees from State health benefits. To address our audit objective, we performed the following:

- Interviewed OEB, Payroll, Human Resources, and Agency Staff regarding benefits enrollment and termination
- Reviewed Rhode Island General Laws (RIGL) related to State Employee Benefits Eligibility
- Reviewed Federal law governing the administration of COBRA coverage
- Reviewed benefit provider purchase orders and contracts
- Prepared diagrams of current processes
- Tested the operational effectiveness of controls in place

Background

The Division of Human Resources has the following units: Administrative Services, Classification and Examinations, Office of Employee Benefits, State Employees' Workers Compensation (SEWC), Training and Development, Employee Services, and Human Resource Service Centers. The State of Rhode Island Office of Employee Benefits (OEB), as a subdivision of the Department of Administration, Division of Human Resources, is responsible for the enrollment and administration of various statewide employee benefit programs including, but not limited to:

- Health Insurance (Medical, Dental, Vision)
- COBRA
- Legal Insurance
- Life Insurance
- Purchase of United States Savings Bonds
- Flex Spending Accounts

For purposes of this report it is important to note the structure of the human resource operation is decentralized at the following four Human Resource (HR) Service Centers:

- DEM/DOT HR Service Center
- General Government HR Service Center

¹ The Consolidated Omnibus Budget Reconciliation Act (COBRA) gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances such as voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events.

- Health and Human Services HR Service Center
- Public Safety HR Service Center

Each of these service centers correspond with the OEB on behalf of the employees they service. The Division of Human Resources is currently planning a reorganization that may replace the service center model.

Current State Information System Limitations

The audit of the OEB involved obtaining an understanding of the personnel system, payroll system, sub-systems, and associated interfaces. Both the payroll system and the personnel system are antiquated mainframe systems which do not integrate with current technology. As a result, there are:

- Multiple stand-alone systems
- Various sub-systems and interfaces used
- Limited reporting and integration capabilities
- Limited data comparability
- Heavily manual data input processes
- Redundancy of data input by different departments

The age of the systems creates difficulties with integration and automation of processes. On several occasions requests for proposals have been issued and studies conducted for replacement of the systems. However, to date, there has been no success in implementing a new, integrated system. As a result of these limitations, processes have been designed to cope with existing infrastructure. The Bureau depicted the current processes and included them as Appendices II through IV which illustrate the complicated, inefficient nature of current benefit administration practices.

To address the weaknesses of current operations, we developed a flow chart depicting the improvement and increased efficiencies that may be achieved through the use of integrated systems and data exchanges with vendors (refer to Appendix I). Integration and automation would maximize employee efficiency by eliminating the manual processes for data input, reconciliation, and communications.

Recommendations for Improved Controls and Management Responses

Benefits Registration

The State of Rhode Island offers Health, Dental, and Vision Insurance to State employees. The State self-insures for health and vision coverage by paying a fixed administrative fee to a health insurance carrier for each plan participant and paying all claims in full. Dental coverage is fully insured by the plan provider.

Benefits registration for new hires and open enrollment² are both manual, paper-based processes. The employee completes benefit election forms and submits them to the Division of Human Resources (HR) Technician. The HR technician forwards these documents to OEB. This information is then manually data entered three times:

1. The OEB Benefits Specialist manually enters all information included on the Health Enrollment Form into online registration portals for the vision and health providers.
2. The State forwards copies of enrollment forms to the dental insurance provider, and all registration and administration is handled directly by the provider.
3. The Central Payroll manually updates the payroll system after receiving the information from OEB.

Due to the manual nature of the registration process and the redundancy of data input into the personnel system, vendor portal, and payroll system, it is necessary to complete regular reconciliations to ensure that the data is correct and consistent within all systems. The method to reconcile each provider is as follows:

- A payroll file with employee dental elections is transmitted to the dental insurance provider to identify exceptions. The exception report is forwarded to OEB to resolve discrepancies.
- The health care insurance provider sends a monthly listing of all plan participants. This file can be reconciled to the payroll system.
- The vision insurance provider web portal provides an on-demand report of active plan participants. This file can be reconciled to the payroll system.

(Refer to Appendix II for process diagrams of the enrollment process.)

Improve Enrollment Process

The current benefit enrollment process requires significant time and effort by employees, OEB, and payroll staff to perform data input procedures:

- Employees must fill out physical paperwork to make changes to their elected benefits.
- Benefits specialists manually update enrollment status with vendors.
- Payroll personnel manually update the payroll system to reflect those changes.

This system causes inconsistencies in data due to timing and input errors, which increase time needed to perform reconciliations. Processes should focus on end-user convenience and efficient use of State resources.

Recommendations:

1. Perform a feasibility study for creating a benefits portal (intra-net) which will allow employees to make benefit election changes electronically.

² Open enrollment is an annual period in which employees may elect to register, cancel, or change health benefit elections, and or other elections.

Management's Response

A request for a feasibility study will be submitted to the Project Review Committee.

Anticipated Implementation Date

Request will be submitted by August 1, 2015.

Responsible Party

Paula Cofone

Perform and Document Reconciliations

Reconciliations must be performed between the provider information systems and the State payroll system to ensure plan participant elections are accurately reflected in both systems. Without an accurate and timely reconciliation:

- The provider may continue to charge the State premiums for employees who have canceled coverage.
- Employees who elect coverage may not be properly enrolled or may be improperly dropped.

The OEB has a process in place for performing reconciliations between these systems; however, the process has not been formally documented. During the course of the audit, the Bureau noted the following weaknesses to the reconciliation procedures:

- No reconciliation performed for vision benefits.
- No proof of reconciliations performed prior to September 2014.
- Inconsistent performance of monthly reconciliations.
- Failure to document all exceptions and resolutions.
- No audit trail because the database is over-written at each reconciliation attempt.
- Physical copies are not maintained according to record retention guidelines.

Recommendations:

2. Create formal, written procedures for reconciliation of provider information systems to the State payroll system. Clearly document all reasons for exceptions noted and corrective actions taken. Require the party responsible for completing the reconciliation to sign and maintain documentation in accordance with record retention guidance.

Management's Response

The need for documented procedures is recognized and supported by the Division of Human Resources/Office of Employee Benefits. The recommended procedures will be prepared.

Anticipated Implementation Date

September 1, 2015

Responsible Party

Colleen Newell

Notify Agencies of Employee Missed Co-share Payments

Numerous points of data entry and interaction between departments in the benefits registration process result in instances, wherein, information is not consistently or timely input.

Errors are identified in OEB monthly reconciliations, which compare the benefit provider's file to the State of Rhode Island Payroll System. When employees are identified who have elected coverage but have no co-share payments withheld, OEB notifies Central Payroll to update their payroll files to reflect the employee's benefit elections. This ensures that, going forward, the appropriate amount is deducted from employees' earnings.

However, OEB does not have a process for collecting co-share payments due for past periods. Adjustments for co-share payments can only be made at the agency level, because OEB has read-only access to the payroll system. OEB does not notify the respective agencies of the past period amounts due. Therefore, the State is not collecting all co-share payments that are due.

Recommendations

3. Co-share discrepancies reported to Central Payroll should also be reported to each respective agency by the OEB on a timely basis.
4. Agency HR Service Centers should make requested adjustments in subsequent pay periods to recuperate missed co-share payments.

Management's Response

These recommendations are being addressed through the implementation of a new accounts receivable module by the Office of Accounts and Controls.

Anticipated Implementation Date

November 1, 2015

Responsible Party

Paula Cofone

Benefits Termination

The Consolidated Omnibus Budget Reconciliation Act (COBRA) requires group health plans to offer continuation coverage to covered employees and their dependents when coverage would otherwise be lost due to certain qualifying events.³ COBRA includes strict regulations regarding the time frame for notifying former employees, premium pricing, and duration of coverage. For State employees, COBRA is administered by a third-party vendor, but the OEB is responsible to timely notify the vendor of all qualifying events.

³ Qualifying events include significant changes in family or employment status as defined by the Consolidated Omnibus Budget Reconciliation Act.

When a qualifying event occurs, an OEB Benefits Specialist logs into the provider portal and inputs the employee demographic information and prior healthcare benefit elections. Once the information is logged into the portal, all correspondence and registration for COBRA benefits occur directly between the provider and the individual. At this time the Benefits Specialist must also log into the provider portals and unenroll each participant manually. A comprehensive process description and illustration is provided at Appendix III.

Improve Efficiency of Benefit Registration and Termination Processes

The process of adding and removing employees from the State systems and vendor portals is manual and labor intensive. Significant time and effort is dedicated by OEB, Central Payroll, and HR employees to enroll and unenroll participants. Further, additional resources must be dedicated to numerous reconciliation procedures to verify that all systems contain accurate and consistent data.

Management has not evaluated the advantages of automating the employee benefit registration and termination processes. A data exchange between the State and the benefit providers would:

- Minimize redundancy
- Reduce data entry errors
- Increase efficiency
- Maximize employee time and effort

Recommendation

5. Implement an electronic data exchange between the State and the benefit providers. An automated process of notifying providers of benefit registration and terminations as depicted at Appendix I will increase efficiency of OEB operations.

Management's Response

Implementation of an electronic data exchange would require the support and assistance of the DoIT team. A request for electronic data exchange between the State and benefit providers will be submitted to the Project Review Committee.

Anticipated Implementation Date

Request will be submitted by August 1, 2015.

Responsible Party

Paula Cofone

Timely Notify Provider of Employee Termination

Federal regulation requires the employer to notify the benefit plan within 30 days of a qualifying event. OEB is responsible for compliance with this mandated time frame; however, their ability to meet this time frame is contingent upon other divisions within Human Resources.

The process for notifying the OEB of employee terminations is not effective or efficient. The process is as follows:

- An employee notifies a Human Resource Service Center of termination.
- Human Resource Technician prepares the Employee Notification of Termination (CS-5) form and submits to the Division of Personnel.
- Division of Personnel processes the CS-5 in the personnel mainframe and distributes copies of the form to OEB.⁴
- Upon receipt of CS-5, OEB Benefit Specialist removes the employee from the associated provider plans and logs the employee's prior benefit elections into the COBRA administrator's provider portal.

Nine of forty employees tested (22.5%) were not notified of COBRA eligibility within the time frame specified by Federal Law.⁵ Further, to date, one employee terminated in December 2014 was never sent a notice of eligibility for COBRA. For each of the nine exceptions, OEB received the CS-5 forms in excess of 30 days from the effective termination date. The OEB is not complying with the mandated Federal law to notify the health plan within the required time after a qualifying event occurs as a result of the delay in the Division of Human Resources internal processes.

Recommendations

6. OEB should explore the potential automation shown in Appendix I.
7. Until automated processes are implemented, the OEB should coordinate with the Division of Personnel to improve communication of employee terminations.

Management's Response

#6. A request for automation will be submitted to the Project Review Committee.

#7. HR and OEB will work together to develop a process by which to forward the information in a more timely manner.

Anticipated Implementation Date

August 1, 2015

Responsible Party

Paula Cofone

⁴ The CS-5 forms cannot be separated for distribution to the appropriate parties until the Division of Personnel signs off on the form.

⁵ The Bureau's testing was limited by the fact there is no date available for when the State notified the Plan Administrator of the employee termination. However, as the State has 30 days to notify the plan, and the plan has 14 days to notify the employee, the Bureau tested for 44 days between the termination date and the date of the notification letter.

Benefits for Leave without Pay Employees

State of Rhode Island employees are allowed to remain under state health care coverage while on temporary leave without pay⁶ (LWOP) under the condition that they continue to make their premium co-share payments. For the period July 1, 2014, through December 31, 2014, 768 employees elected to continue health benefits coverage during leave, averaging 338 employees each pay period.

Prior to June 2014, there was no formal process in place to track and enforce the collection of health care premiums for these employees. As a result, employees accrued large balances for health care premium co-shares while on leave, and arrearages were not consistently collected.

In an effort to improve the collection of future debts, the Department of Administration (DOA) Director issued an order in June 2014 that required the termination of benefits for those employees who fall past due on their premium payments. A process was created to track premiums accrued, payments received, and to terminate coverage for those individuals who do not pay timely. The process is as follows:

- The HR Service Center bills employees with an outstanding balance on a pay-period basis.
- If a payment is not received within two billing cycles, a delinquency notice is sent.
- If there is no response to the delinquency notice within three⁷ business days, a notice of coverage termination is sent to the employee.
- If no payment is received within 30 days of the termination notice, health coverage is cancelled, and the case is forwarded to the DOA legal department for collection.⁸

Responsibility was delegated to each of the four HR Service Centers to administer collection of receivables for the agencies under their purview. Central Payroll began to print and manually distribute reports to the HR Service Centers which listed balances due for each employee on a pay-period basis.

Each of the HR Service Centers developed processes for tracking payments independently. Some service centers developed stand-alone information systems for tracking and reporting receivables balances, while others continue to rely upon electronic spreadsheets or paper filing systems. All the HR Service Centers submit cash receipts for premium co-shares to the OEB who consolidates the payments and forwards them to the Central Business Office (CBO) for bank deposit. A comprehensive process description and illustration is provided at Appendix IV.

Premium collection has improved greatly as a result of the DOA Director's order. Collections from August through December 2014 totaled \$235,181 as compared to \$99,921 for the same period in the prior year. Although collection has increased, inefficient process design imposes a substantial burden on employees, and significant time and effort is dedicated to this collection process. Issues identified during the course of the audit are described below.

⁶ If an employee is on worker's compensation, he/she can pay the co-share rate for coverage for up to two years. If the employee is on medical leave, he/she can pay the co-share rate for up to one year.

⁷ Although the Director's order stated that the termination notice should be sent three business days after the delinquency notice, practices within the services centers varied. Generally, the termination notice was not sent until the following pay period.

⁸ All those employees who had quantifiable outstanding balances at the time of the new order were provided with the opportunity to enter into payment plans with Division of Legal Services.

Develop Leave without Pay (LWOP) Policies or Procedures

The Division of Human Resources and the OEB do not have written policies and procedures that describe the LWOP process. Currently, departmental practices and procedures do not address the LWOP process and are not consistent amongst departments. As a result of the lack of policies and consistent procedures, there is no coordination among State departments for collecting, tracking, and enforcing LWOP rules.

Statewide policies should be clearly documented and made available to employees. There is no information available to employees regarding application process, qualification, and co-share obligations. As a result, employees may be unaware of co-share responsibilities related to health benefits while on LWOP.

Recommendations

8. The Division of Human Resources' senior management and the OEB should develop an improved process to account for LWOP co-share payments and document and enforce these formal policies and procedures.

Management's Response

See Management's Response to recommendations 3 and 4.

Anticipated Implementation Date

November 1, 2015

Responsible Party

Paula Cofone

Improve Tracking Process for Leave without Pay Co-share Premium Payments

The dissemination of responsibility to the four Human Resources (HR) service centers has resulted in the creation of separate and distinct processes for tracking premium payments. The Bureau reviewed the processes within agencies under each of the Human Resource service centers and noted the following control weaknesses:

- No reconciliation of weekly accounts receivable balances to the Central Payroll system
- No process addressing required communication between service centers when employees return to work or move between agencies
- Varying discretion to enforce rules
- Manual intensive tracking mechanisms
- Multiple stand-alone accounts receivable tracking systems

Without evidence of successful reconciliation, the accuracy of the balances of each HR Service Center records cannot be verified. With the information provided, the Bureau approximates that there is

between \$650,000 and \$700,000⁹ owed from over 650 current and past employees outstanding. Of this amount, only 96 have agreed to repayment terms with the DOA's Legal Services Office, totaling approximately \$200,000.

Further, there are no current procedures to record receivable balances in the accounting system. As a result, there is no receivable asset recorded in the State general ledger for outstanding LWOP premium payments.¹⁰

The Office of Accounts and Control has been developing a unified Accounts Receivable System specifically for tracking LWOP amounts outstanding since June 2014. This system is currently undergoing testing and scheduled to be implemented during fiscal year 2015. Once this system is implemented, Accounts and Control will determine an overall statewide accounts receivable balance for LWOP employees and record the balance to the State financial statements.

Recommendations

9. Implement a unified system to track all LWOP balances due and premium payments received.

Note: The Office of Accounts and Control has been developing a unified Accounts Receivable System specifically for tracking LWOP amounts outstanding since June 2014. This system is currently undergoing testing and scheduled to be implemented during fiscal year 2015. Once this system is implemented, Accounts & Control will determine an overall statewide accounts receivable balance for LWOP employees and record the balance to the State financial statements. The Bureau of Audits will follow up on this recommendation three months after fiscal close to ascertain if this recommendation was properly addressed. No management response is required for this recommendation.

10. Centralize the collection of LWOP premium payments in the Office of Employee Benefits.

Management's Response

Once the unified Accounts Receivable System has been implemented, the Office of Employee Benefits will work with the Office of Accounts and Controls to determine the best course of action to centralize the process.

Anticipated Implementation Date

December 1, 2015 (Contingent upon the unified Accounts Receivable System implementation)

⁹ The Bureau could only account for the receivables balances reported by the agency contacts due to a lack of documentation. We found one instance in which individuals with retroactive payroll withholdings were tracked by a Human Resources technician separately from the overall LWOP receivables balance. This person was not able to quantify receivables due. As such, the totals above do not reflect certain retroactive payroll balances. There could be other balances outstanding of which the Bureau was not notified.

¹⁰ According to GASB codification 2200, all cash, assets, or resources reasonably expected to be realized in cash, including accounts receivables, must be included within the comprehensive annual financial report.

Responsible Party

Paula Cofone

Reconcile Leave without Pay Premium Payments

The process of LWOP premium payment collection is as follows:

- An employee submits payment to the respective HR service center.
- The HR service center updates its records to account for the payment received and submits the checks to the OEB.
- OEB combines payments received from each HR service center and forwards to the Central Business Office (CBO).
- The CBO deposits the checks.

There is no control in place to reconcile the deposited checks to the change in the overall accounts receivable balance. As a result, there is no assurance that cash received is appropriately deposited and that changes to accounts receivable are supported by cash received.

Recommendations

11. Implement a centralized system for recording receivables for LWOP premiums. Design reporting features in the system that reconcile to the payroll system.
12. After a system is implemented, ensure that timely reconciliations of cash receipts occur.

Management's Response

See response to recommendation #10.

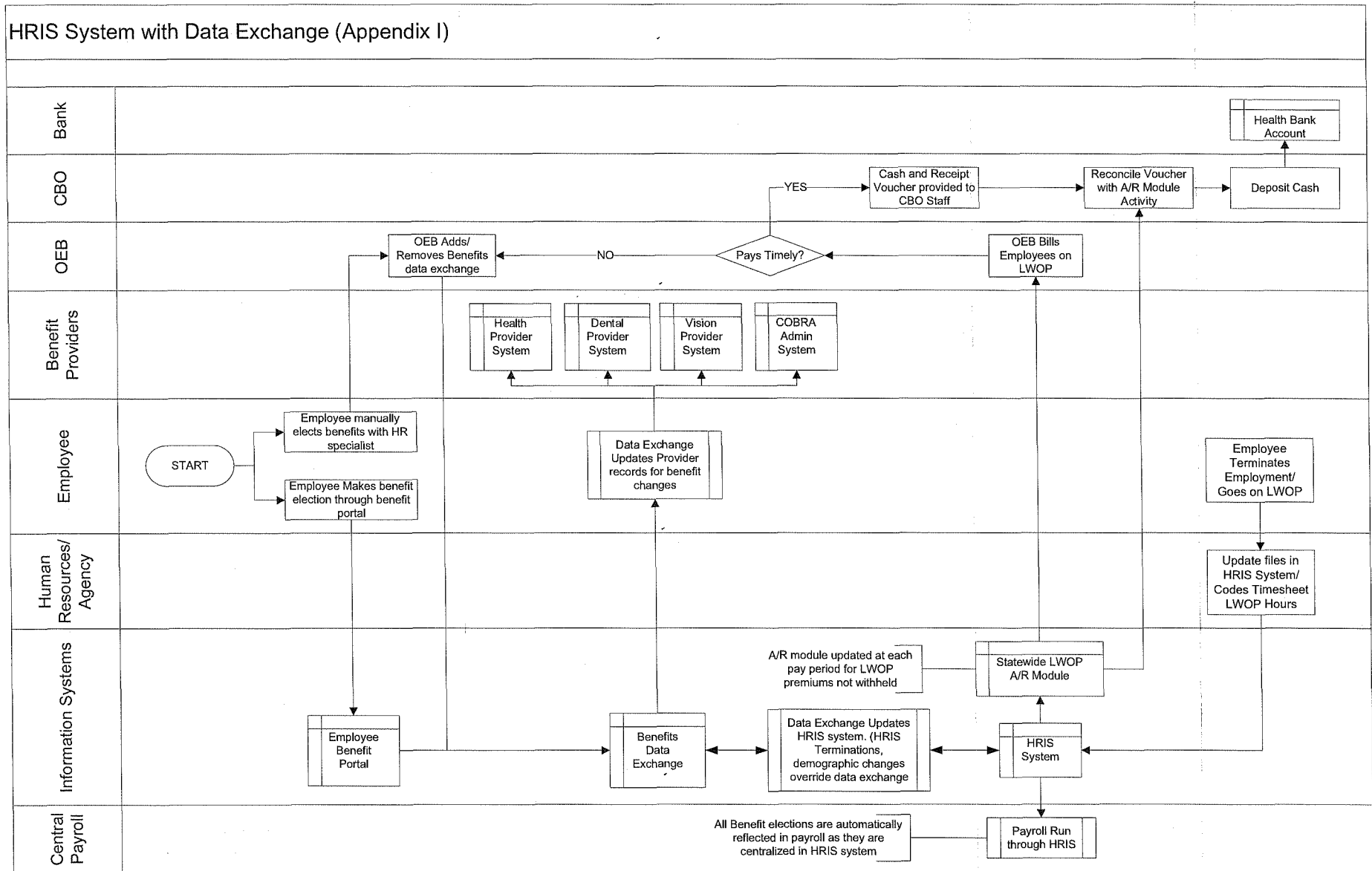
Anticipated Implementation Date

December 1, 2015 (Contingent upon the unified Accounts Receivable System implementation)

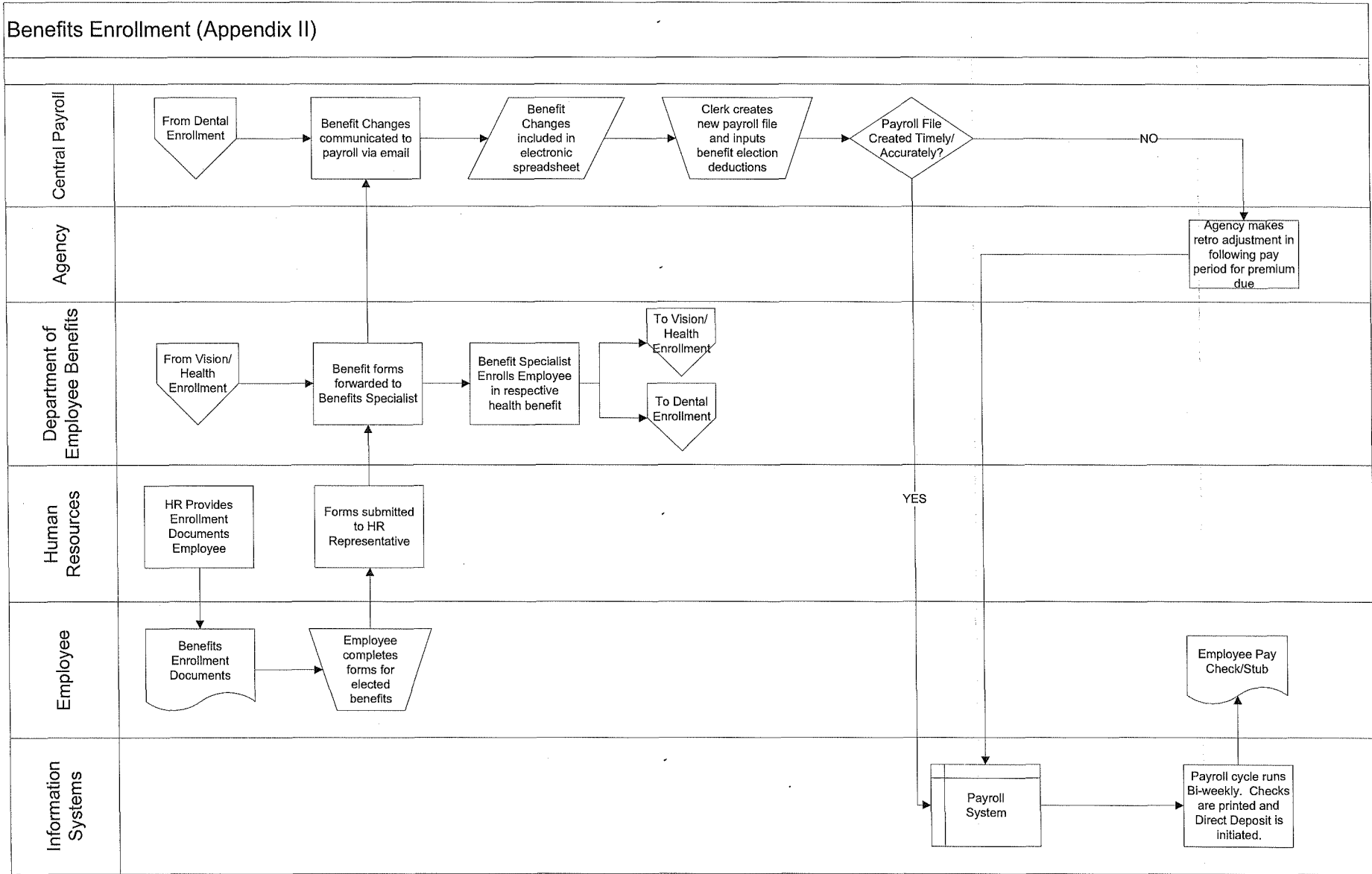
Responsible Party

Paula Cofone

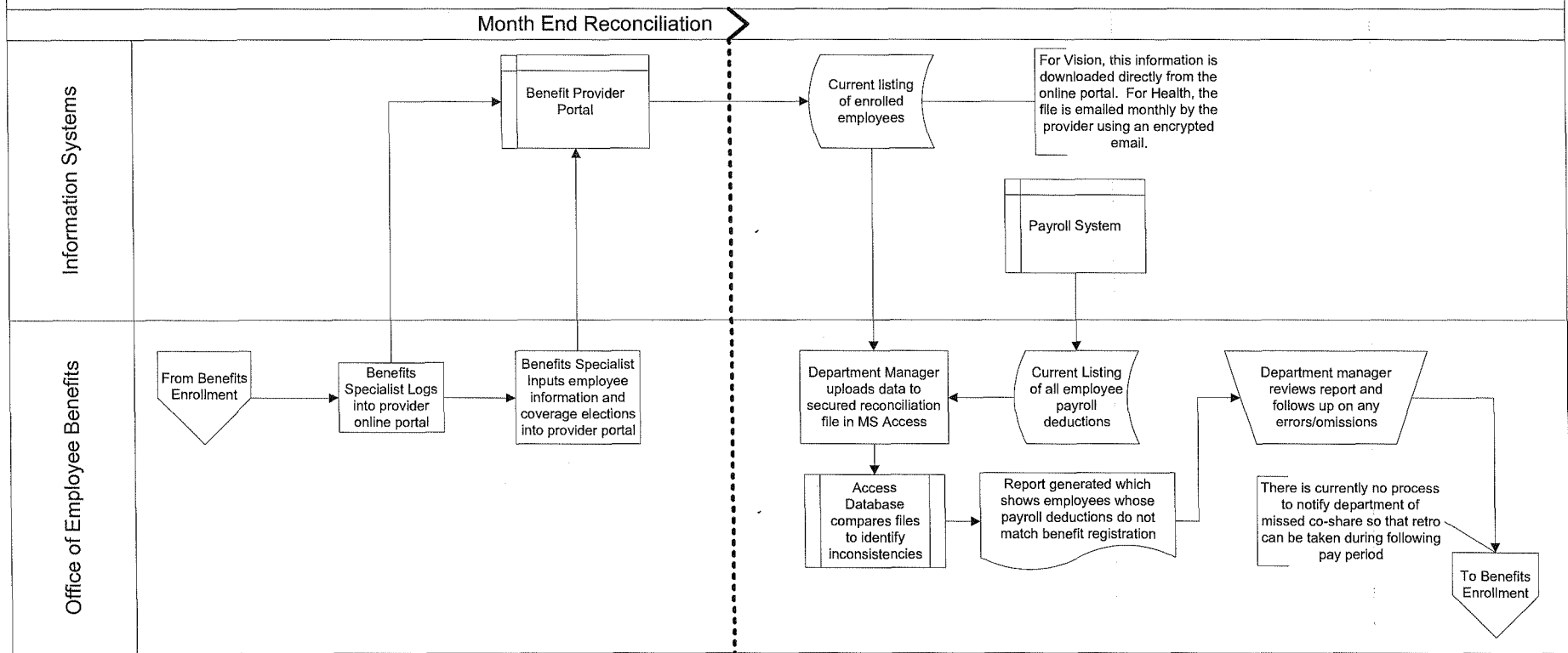
HRIS System with Data Exchange (Appendix I)



Benefits Enrollment (Appendix II)

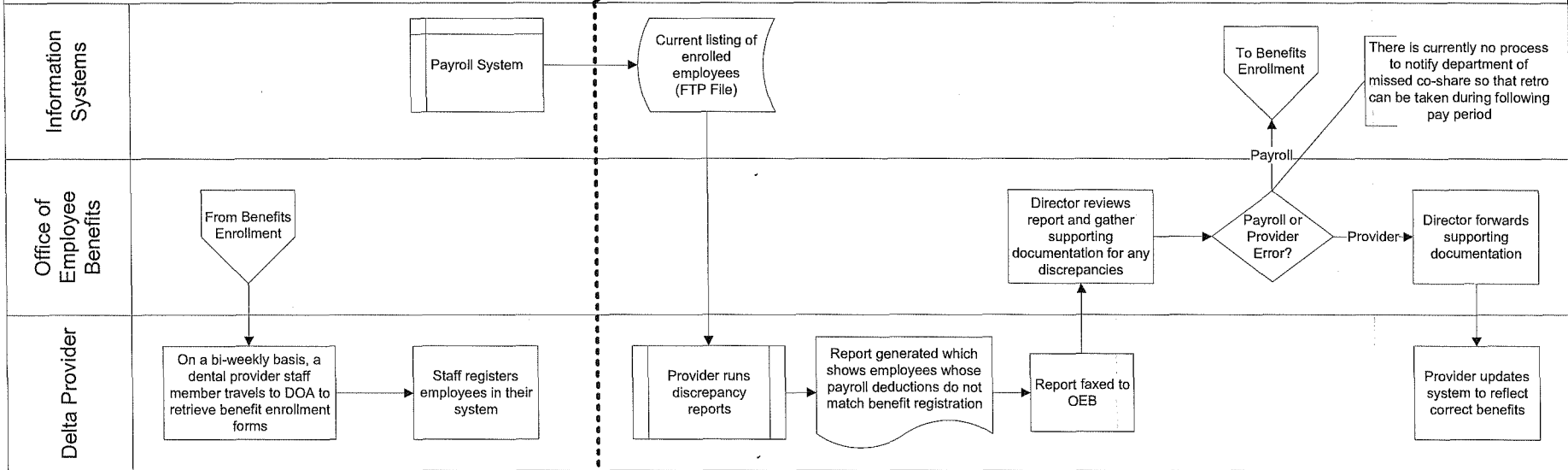


Health/Vision Enrollment (Appendix II)

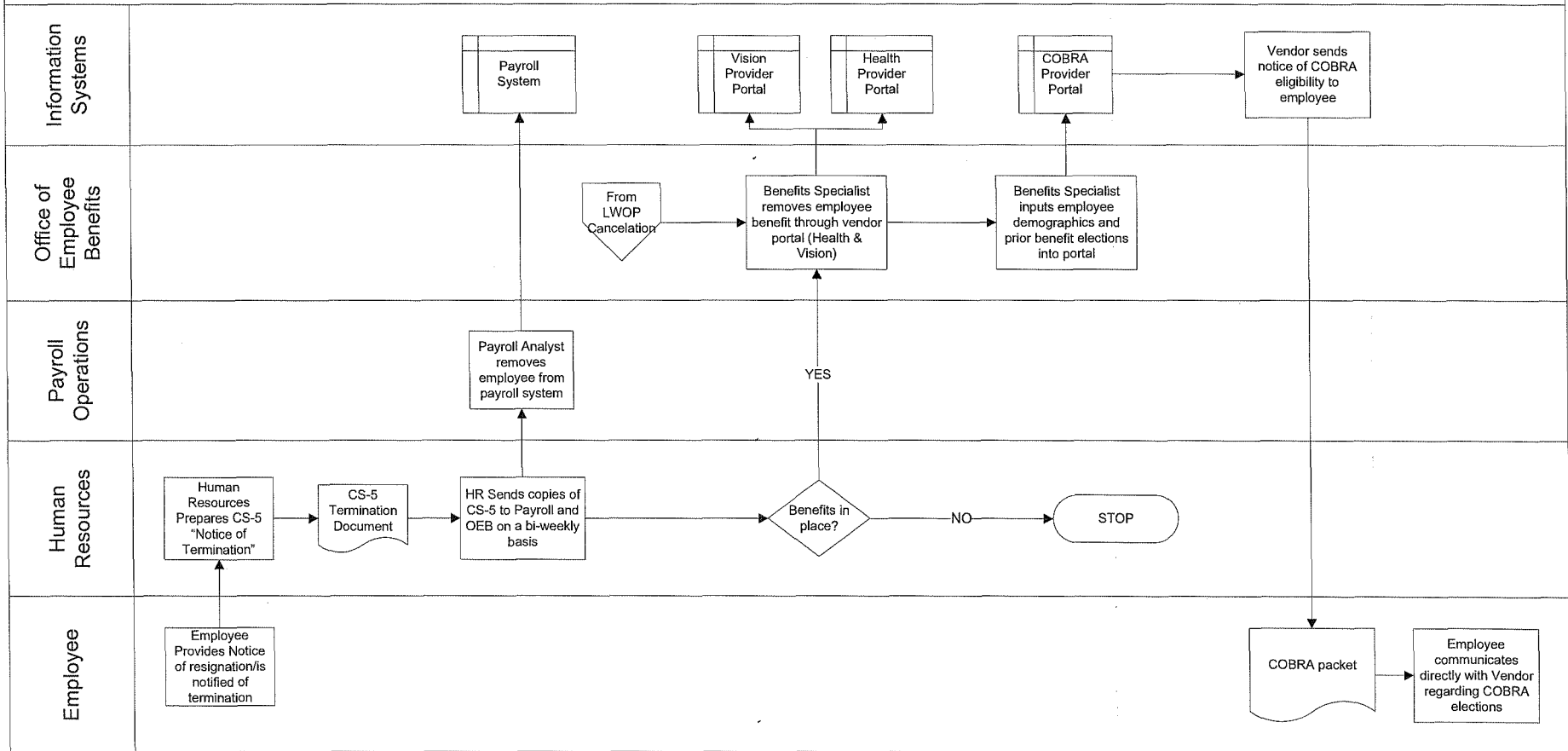


Dental Enrollment (Appendix II)

Month End Reconciliation

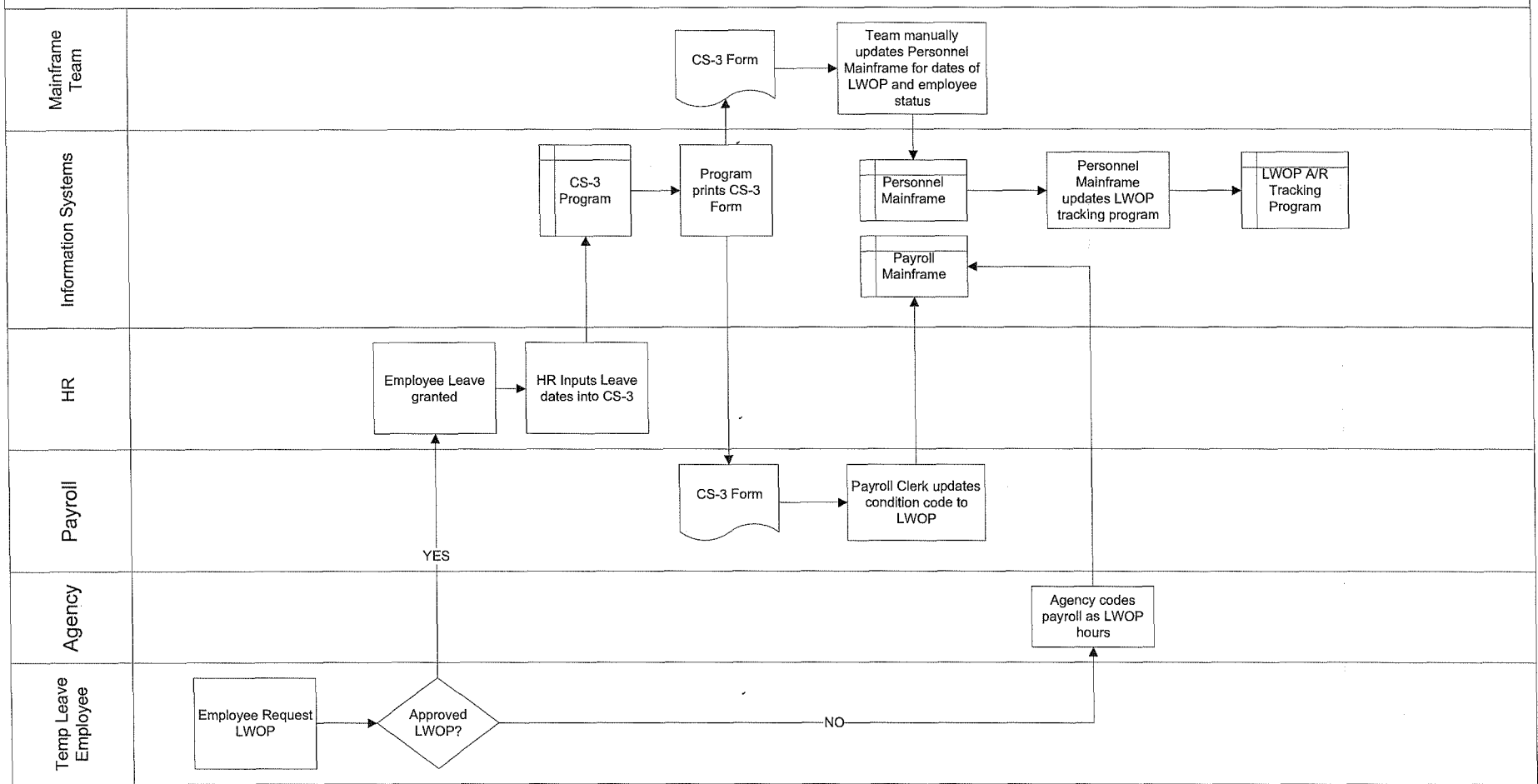


Benefits Termination (Appendix III)



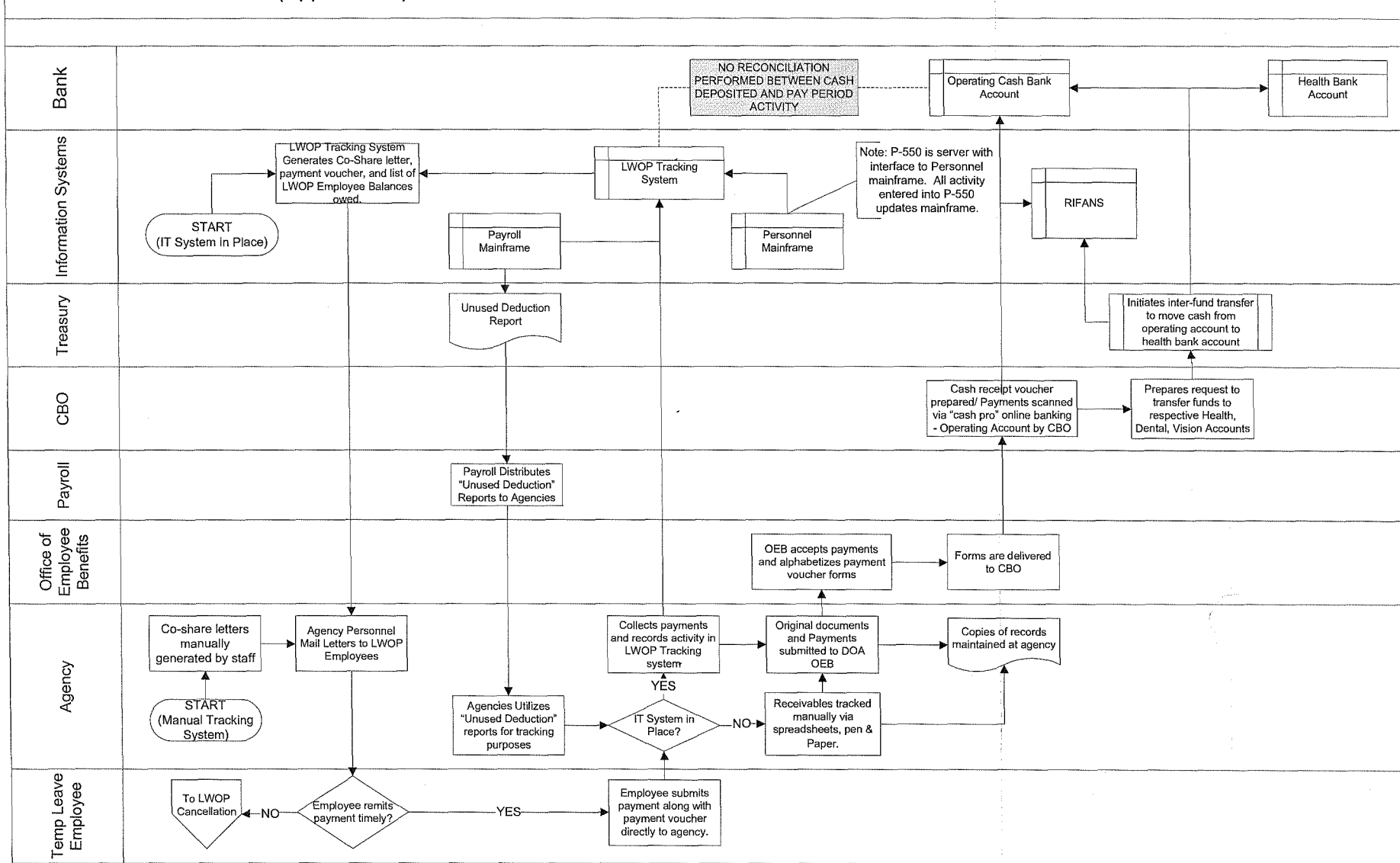
Note: There is no formal procedure to remove employees from Delta Dental. All terminated employees are identified and removed through the reconciliation process. Once an benefits recipient does not match the payroll file for two consecutive weeks, the person is removed retroactively from benefits. Delta Dental credits the state for any premiums paid for employees removed from benefits on a retroactive basis.

Leave Without Pay (Appendix IV)



Unapproved LWOP is often related to employees who are out on Worker's Compensation cases. These employees are not formally granted approved Leave until Worker's Compensation staff reviews the case and submits medical records justifying their claims. During this period, employees maintain "active" status, with their hours coded as "Leave Without Pay" in the payroll system.

LWOP Co-Share Collection (Appendix IV)



LWOP Benefit Cancellation (Appendix IV)

