METRO

Payroll and Benefit Programs:

Greater coordination can improve processes

July 2010

A Report by the Office of the Auditor

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Metro Auditor

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MEMORANDUM

July 28, 2010

To: David Bragdon, Council President
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Rex Burkholder, Councilor, District 5
Robert Liberty, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

Re: Audit of Payroll and Benefits Programs

The attached report covers our audit of Metro's processes to complete employee payroll and manage employee benefits. This audit was included in our FY 2009-10 Audit Schedule upon the request of the Human Resources Director, Mary Rowe.

Effective payroll business processes require coordination across the Human Resources, Finance and Regulatory Services and Information Services departments. Each department has a different role in the process. We found that overall oversight could be strengthened to ensure that the processes were operating as effectively and efficiently as possible. Each department operated somewhat independently to achieve its objective and, at times, increased work in other areas.

Management of the Benefits program also needs improvement. Metro has limited options to change health benefit plans and contain costs. The contract for a benefits broker has not been actively managed and the broker has not been held accountable for the quality of services provided to Metro.

We have discussed our findings and recommendations with Scott Robinson, Deputy COO, Mary Rowe, HR Director and Margo Norton, Director, Finance and Regulatory Services. A formal follow-up to this audit will be scheduled within 1-2 years. We would like to acknowledge and thank the management and staff in the departments who assisted us in completing this audit.

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Summary

Payroll and benefit processes impact every Metro employee, department and program. Effective processes require a well designed and managed system. Several departments at Metro played a role in these processes; however, primary staff are located in the Human Resources Department.

The objective of this audit was to evaluate these business processes to determine if payroll was completed accurately and if employee benefits were managed strategically so that service quality and rising costs could be addressed. While we reviewed payroll and benefit processes specifically, we also assessed coordination across departmental lines. For the most part, payroll information was accurate, however, the process suffered from a lack of coordination. We also found weaknesses in the management of employee benefits.

Differing roles and responsibilities in the HR, Finance and Regulatory Services (FRS) and Information Services (IS) Departments led to different perspectives that required coordination. The Payroll staff operate in a short-term environment needing to issue accurate paychecks twice a month. FRS staff have a more long-term perspective and are responsible for accounting for revenues received and expenses. IS staff manage the software that serves both departments and ensure that it meets the needs and requirements of both HR and FRS. We found increased leadership was needed to ensure these functions do not inadvertently cause problems from their independent actions.

The payroll function is commonly part of an organization's accounting function. This is to ensure there is separation between those charged with maintaining employee information and those who issue payments to employees. At Metro, this was the case until the Payroll program was moved to HR in 2006. Since this reorganization occurred, HR has not successfully maintained this separation in duties. This presents a risk for fraud or abuse.

Metro requires that employees share in the costs of health insurance. The design of the cost-sharing system was different for different employee groups. This decision created difficulty in reconciling benefits back to individual employees and made it too time consuming to complete. As a result, the system lacked transparency and the ability to manage health insurance costs was reduced.

We also found weaknesses in the information that was available to manage benefits service quality and costs. While HR hires a benefit broker to assist them, the contract was not well managed. The broker received payments over an agreed upon cap and the quality and timeliness of information provided was not sufficient to make strategic decisions.

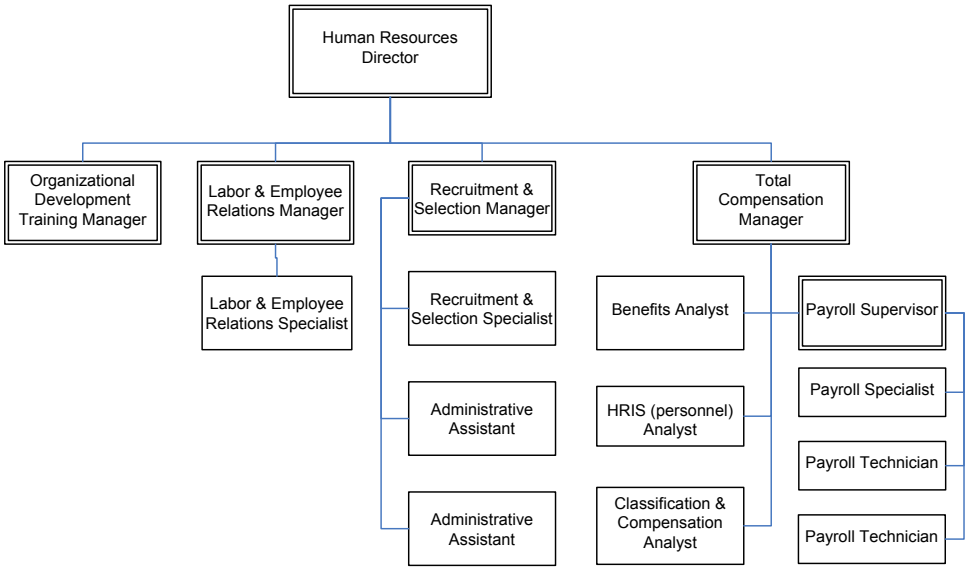
The audit recommends that Metro assign leadership responsibility for the payroll and benefits processes. Once assigned, the process owner should work on clarifying roles and responsibilities to improve the system.

Background

Payroll and benefit processes are an important part of Metro's internal business services. They impact every department, program and employee. In Fiscal Year (FY) 2008-09, Metro's expenditures for salaries and wages, and fringe benefits totaled $70.8 million.

Payroll and benefits functions are part of the Total Compensation Division, located in the Human Resources Department (HR). During the audit, the Total Compensation Division consisted of eight employees, which included the Division Manager, a Benefits Analyst, a Human Resources Information System (HRIS) Analyst, a Classification and Compensation Analyst, a Payroll Supervisor, a Payroll Specialist and two Payroll Technicians. A reorganization of the Department was implemented on July 1, 2010.

Exhibit 1
Human Resources Department Organization FY 2009-10

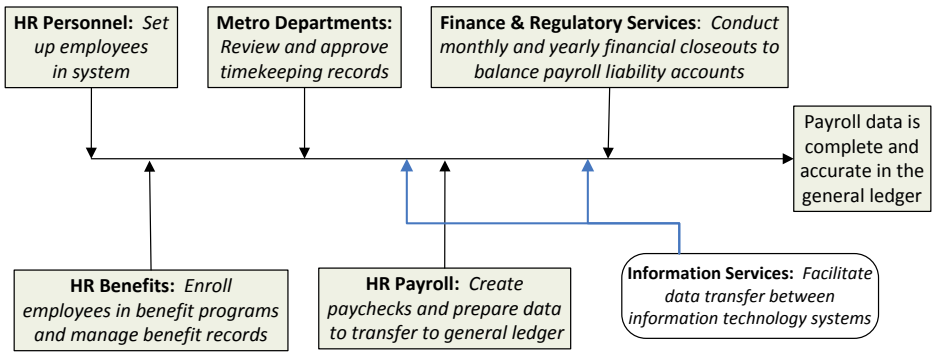


The Payroll section (Payroll) was responsible for providing timely and accurate paychecks in compliance with applicable laws and regulations. Personal Services expenditures for Payroll totaled $321,420 in FY 2008-09, which included the Payroll Supervisor, a Payroll Specialist, two Payroll Technicians and a portion of the Total Compensation Manager's time. Over the last two years, Payroll processed an average of 1,389 paychecks during each semi-monthly pay period, which totaled approximately $4.1 million in gross wages.

The Benefits section (Benefits) managed the employee benefits open enrollment process, staffed the Joint Labor Management Committee on Health Benefits, processed payments to benefit vendors and acted as a liaison between employees and benefit providers. Personal Services expenditures for Benefits totaled $116,769 in FY 2008-09, which included the Benefits Analyst and a portion of the Total Compensation Manager's time.

In addition to the functions in HR, other departments had a role in payroll and benefit processes. Timekeeping review and sign-off was done by department managers and timekeeping administrators. Information Services (IS) implemented software upgrades and provided technical assistance to users of Kronos, the timekeeping system, and PeopleSoft, the accounting system. Finance and Regulatory Services managed the general ledger, where pay information was linked to funds, departments, programs and projects and where payments to benefit vendors were processed and reconciled to the general ledger liability account balances.

Exhibit 2
Payroll Process



Source: Auditor's Office analysis

Scope and methodology

The purpose of the audit was to evaluate Metro's payroll and benefit processes to see if they were operating efficiently and effectively. There were two objectives for the audit:

- Determine if Metro's processes were able to complete payroll accurately; and
- Determine if employee benefits were strategically managed to address service quality and rising costs.

To accomplish our objectives, we interviewed Metro employees, reviewed department documents and benefits contracts, analyzed expenditure data, observed payroll processes and attended Joint Labor Management Committee for Health Benefits meetings. A significant portion of the audit was dedicated to testing payroll and benefit data in PeopleSoft for accuracy and completeness. The scope of our data testing focused on the two-year period FY 2007-08 and FY 2008-09, but also included some data from the current fiscal year, FY 2009-10. In addition, we researched best practices for payroll and benefits administration by reviewing previous audits and industry literature and interviewing representatives from other jurisdictions to learn about their operations. Department management of time and attendance (i.e. employee timekeeping, review and approval processes) was excluded from the scope of the audit.

This audit was included in the FY 2009-10 audit schedule. 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.

Results

The efficiency and effectiveness of the Payroll and **B**enefits programs depend on the inter-related processes performed in three different departments: Human Resources (HR), Information Services (IS), and Finance and Regulatory Services (FRS). While the programs reside in HR, we found that operations across these departments did not have unified or coordinated leadership. As a result, Metro incurred additional costs and did not receive as much value from software systems as it could.

For the most part, payroll processes were able to generate accurate pay information, but reliance on manual processes increased costs and risk. Metro could also improve its strategic management of benefits so as to better address service quality and rising costs. Without strategic management, Metro had limited options to control costs and provide more health benefit plan options.

Strengthen leadership

The effectiveness and efficiency of payroll and benefit administration depends on well designed and managed business processes. These processes have to be coordinated across departments to ensure that decisions made in one area do not have unintended consequences in another. Such coordination requires clarity of purpose, roles and responsibilities and policies and procedures. It also requires on-going monitoring and adjustment of the process as a whole.

Several departments at Metro played a role in payroll and benefits, but none had ownership of these processes as a whole. As a result, the focus was on maintaining the status quo by making piecemeal changes. Processes were set up to work around decisions made in other departments or sections of HR rather than coordinating decision-making up front to optimize the entire process.

The effectiveness and efficiency of payroll and benefit processes depends on accountability, communication and trust among various groups of employees across several departments. We found that these qualities were not always present and identified several areas where improvements could be made to increase coordination and ensure clear roles and responsibilities across the agency.

Different roles and responsibilities require cross-departmental management

Differing roles and responsibilities in each part of the payroll process led to different perspectives that required coordination. We found key decisions were made without coordination or understanding about how they impacted other payroll and benefit processes. Many of these decisions were made in the past by personnel no longer employed by Metro. For example, a change in software coding by one section may hinder another group's work.

Exhibit 3
Roles and Responsibilities for Payroll Processing

	Human Resources (Payroll)	Information Services	Finance & Regulatory Services
Role	Process payroll data and provide documentation for vendor payments	Technical support, writing software code and implementing software upgrades	Account for personal service costs by employee, program and department. Issue payments to vendors
Responsibility	Ensure accurate and timely paychecks	Ensure data can flow through the software systems	Ensure data in the general ledger is accurate and complete
Software	Kronos, PeopleSoft HRMS, Peoplesoft Financials	Kronos, PeopleSoft HRMS, PeopleSoft Financials	PeopleSoft Financials

Source: Auditor's Office analysis

Payroll has a very short time frame to evaluate, learn and implement new processes. Paychecks are issued twice a month and the time staff has to complete payroll can range anywhere from two to six days. As a result, the key to its success is getting things processed on time so that everyone receives compensation for their work.

IS manages the software to connect data between timekeeping, payroll and finance systems, which often involves incremental process changes or upgrading software. As a result, the key to its success is accommodating HR and FRS' requirements and processes with minimal disruptions.

FRS collects and reconciles payroll and benefit data in the general ledger to ensure revenues and expenses are accounted for. Its focus is on monthly and yearly closeout periods and has a longer time horizon for its work than both Payroll and IS. As a result, the key to its success is being able to track data back to its source to ensure it is accurate and complete.

Leadership to integrate each group's role and responsibility would improve the efficiency and effectiveness of the payroll process. Each group brings an important perspective, but without cross-departmental management business processes became uncoordinated. Because they focused on their own role, no one assessed the effectiveness of the process as a whole.

The transfer file used to move data between the payroll system (PeopleSoft HRMS) and the finance system (PeopleSoft Financials) provided a good example of the impact of not having a coordinated payroll process. During tests for accuracy, we found a total discrepancy of $210,000 over two years. Our attempts to determine why this occurred led us from Payroll to FRS to IS, back to Payroll and then back to IS. Each group had a different theory for where and why the discrepancies originated, but nobody could pinpoint why they occurred.

We determined that the discrepancies did not result in overpayments to employees, but the possibility remained that the paycheck totals were overstated to ensure general ledger totals reconciled. While Payroll may have achieved its goal of not over- or underpaying employees, the lack of clarity about the discrepancies was in direct contrast to FRS' need to have accurate account totals in the general ledger.

Segregation of duties could be strengthened

Best practices indicate payroll is most commonly part of an organization's accounting function. This is to ensure there is separation between those charged with maintaining personnel information (HR) and those who issue payments to employees (Payroll). At Metro, these two functions were part of the Total Compensation Division within HR. Previously, the payroll function and benefits function were both part of FRS. Benefits became part of HR in 2000 and Payroll joined HR in 2006.

Management stated that the purpose of having payroll as part of HR was to better integrate processes between personnel, benefits and payroll. However, business processes were not reevaluated. We also found controls over the appropriate segregation of duties were not maintained.

Oversight between HR and IS is needed to make sure segregation of duties is maintained by linking job duties to appropriate security profiles in software systems. Our review of software security settings of HR staff revealed that security profiles were tied to individual employees, not standard profiles based on position responsibilities and associated controls. Designing profiles independently for individual employees created an uncoordinated security solution. The ability to monitor segregation of duties was difficult. Responsibility for maintaining appropriate segregation of duties was not clearly assigned and related recommendations from a previous audit were not fully implemented.

Inappropriate security profiles increased the risk of fraud and abuse, and impacted accountability for changes in the systems. We found many HR employees could change time entries in Kronos, create "award" payments and change the employment status of employees (e.g. terminated, active, rehire). Changes that should only be authorized in one division could be done by employees in other divisions and departments.

Maximize value of investments in software systems

Software systems have the potential to reduce manual processes, increase transparency about how calculations are made and reduce staff time for processing and reconciling data. Metro did not always realize the benefits of its investments in software, which contributed to inefficient processes.

Metro has not assigned primary responsibility to assess the functionality of software systems as a whole. Three software systems are used to process payroll and benefit data, Kronos, PeopleSoft Human Resources Management Systems (HRMS) and PeopleSoft Financials. Each system was set up independently and without regard to system-wide functionality. As a result, additional steps in the process were required to ensure that

data flowed correctly through each system. Better integration of software systems could reduce manual processes, improve consistency, and increase transparency and accountability.

Exhibit 4
Software Systems

Time Keeping	Payroll & Benefit Processing	Balancing Expenses & Revenues
Kronos	PeopleSoft HRMS	PeopleSoft Financials

Having separate timekeeping and payroll processing software required additional staff time in Payroll and IS to transfer and reconcile data between the two systems. Similar inefficiencies occurred when data was transferred between the two PeopleSoft systems. Having separate systems also required IS to support two systems, which created additional work in implementing system upgrades and maintaining consistency between data tables. Metro has one IS staff member who supports Kronos and another who supports PeopleSoft's payroll modules.

Compounding this weakness, employees were managed differently in the timekeeping system, based on uncoordinated decisions of individual managers and not necessarily based on business needs. Some employees were set up with regular schedules in Kronos. For these employees, regular hours are populated for each day worked unless a different time entry such as vacation or sick leave was entered. Other employees did not have a regular schedule set up in Kronos. For these employees, regular hours were not captured in the timekeeping system; only exceptions to regular hours were entered. As a result, there was inconsistent and incomplete data between the timekeeping and payroll processing systems.

Inconsistent management of payroll and benefit data made it very time consuming and difficult to track errors back to their source. Because no one was responsible for the whole process, the focus was on implementing quick fixes or workarounds when errors arose rather than addressing errors at their source.

Challenges in maintaining consistent and accurate records led to over- and underpayments. For example, Metro made retirement contributions for employees who were not eligible to receive employer paid retirement benefits and did not contribute the correct amount for some employees who were eligible. The payroll system was not configured to prevent employees from accruing vacation hours in excess of the 250 hour maximum, as stated in the personnel code. Also, payments to vendors were not made on time, partly due to challenges in obtaining insurance coverage data in the system.

Better utilizing the full functionality of software systems would improve the quality of data available to managers. Lack of data limited managers' ability to analyze information about costs for personal services including trends in employee leave (e.g. sick leave, family medical leave), fringe benefit costs and transparency when errors occur. Standard reporting features in software systems were not used and knowledge about sources of data and report options was centralized in individual positions in Payroll, IS and FRS.

Health benefit cost-sharing lacks transparency

The cost-sharing plan HR used for health insurance reduced transparency about how rates were set and reduced clarity about roles and responsibilities for reconciling payments to providers. When Metro began requiring employees to pay a portion of their medical benefit costs, HR created a formula to allocate costs between employees and departments. The formula set up different rates for various employee groups at Metro (e.g. union represented, non-represented and unclassified). Some employees paid a fixed rate (composite) regardless of the number of people covered. Other employees were required to pay a share of the costs based on the number of people covered by the insurance plan (tiered).

Exhibit 5
Tiered and Composite Rates
Per Pay Period

	Kaiser ($10/$20 co-pay plan)	CIGNA (HMO/PPO plan)
Employee only*	$11.43/$10.70	$24.62/$25.12
Employee & child(ren)*	$18.86/$17.53	$40.35/$41.25
Employee & spouse/partner*	$20.70/$19.24	$44.28/$45.29
Employee & family*^	$26.27/$24.36	$57.38/$56.08
Composite**	$25.77/$16.69	$35.24/$35.24

Source: FY10 Employee Benefits Handbook

* Available only to non-represented, AFSCME 3580 and unclassified employees.
** Available to all other employees.
^ Employee & family coverage includes spouse/domestic partner and child(ren).

Offering both tiered and composite rates facilitated contract negotiations with unions, but it created considerable confusion and additional work to reconcile employee and department contributions with monthly bills from benefit providers. This led to disagreement between FRS and Benefits staff over how to reconcile benefits data to ensure that payments to providers were accurate. Management in FRS stated that their preference was to reconcile benefits payments to individual employees, but agreed to accept HR's decision not to reconcile benefits at that level of detail. FRS stated that the reason they accepted HR's decision was because the total amount not reconciled was not material to Metro's financial statements. As a result, transparency and the ability to manage these costs were reduced.

Additionally, the cost-sharing formula reduced transparency about the causes of a growing balance in the health insurance fund. The formula used by HR to set rates was not always exact, which resulted in Metro collecting more in the health insurance fund than it paid for benefits (fund balance). In recent years, the fund balance grew larger. The primary reason was due to the complexity of forecasting how many employees would be enrolled in a health plan each month. Total enrollment in each insurance plan can change from month to month as employees begin and end service at Metro. To accommodate this, HR set rates conservatively to ensure enough money was collected to cover its costs.

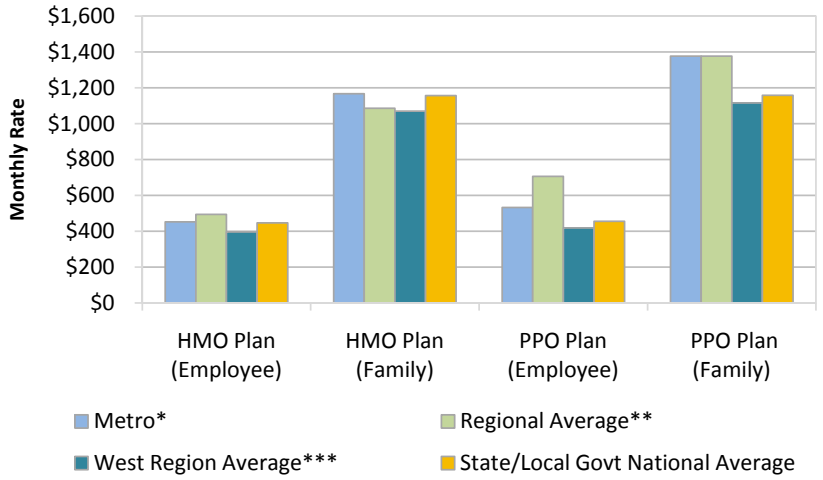
Fund balances can also accrue from employees who opt-out of insurance coverage. Employees who opted-out received a $150 monthly payment, but departments still contributed to the health insurance fund as if the employee

had coverage. This created additional fund balances at the end of the year because opt-out payments were less than the cost of insurance. Another cause was that insurance providers did not offer composite rates for health insurance so HR created its own composite rates. This reduced Metro's ability to match the cost of an employee's plan with contributions from departments and employees.

Better strategy for health benefit plan selection needed

The process used to select health benefit plans was not strategically managed to contain costs and provide options. Metro had very few options to change its health benefit plans from year to year, incurred additional administration fees to maintain the status quo health benefit plans and had higher insurance rates for several plan types and coverage levels compared to regional and national averages.

Exhibit 6
Insurance Rate Comparison



Source: Auditor analysis of "2009 PDX HMO, PPO, Fringe Survey" and Kaiser Family Foundation (2009 Employee Health Benefit Survey)

* Kaiser $10 Plan rate.
** Average of 10-12 local government entities in the region and State of Oregon.
*** Includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

Metro's health benefit plans were fairly unique among local governments in the area for several reasons. For example, Metro:

- Did not offer a self-insured health benefit plan and did not participate in a pooled insurance consortium with other local governments;
- Offered both tiered and composite health benefit rates to different employee groups;
- Offered three HMO plans including two from the same provider;
- Enrolled employees disproportionally in one health insurance provider's plans, which limited the pool of providers that will bid on Metro's business; and
- Solicited bids each year and did not have multiple year agreements with providers.

Metro relied on the Joint Labor Management Committee for Health Benefits (JLMC-HB) to evaluate benefit plans and make a recommendation to the Chief Operating Officer and HR Director each year. The focus on yearly plan selection prevented the committee from thinking long-term. There was a lack of training for committee members and the information provided to them was not sufficient to understand the long-term impact of their decisions.

Best practices indicate that a key to successfully managing health benefits costs and service levels is to have either strong benefits staff or a strong consultant to help develop and implement a long-term strategy. HR retained a benefit broker on contract to help evaluate and strategize health benefit options each year. The broker worked with insurance providers, advised HR staff and attended JLMC-HB meetings as a technical expert.

During the audit, we learned that the benefit broker had not been held accountable for the quality of the services provided to Metro. HR staff and JLMC-HB members expressed concern about the quality and timeliness of the information provided by the broker. In addition, HR staff offered very little analysis or strategic guidance to help inform the JLMC-HB. The HR department needs to develop a strategy and assign responsibly among staff members to better position Metro for health benefits selection.

Active management of contracts needed

HR had many contracts and/or agreements with external vendors for employee benefit programs and services. Our review of contracts for employee benefit services, administration and consulting indicated that some contracts were not managed to ensure Metro received the services it paid for. In addition, a lack of contract management increased the cost of benefits and resulted in contracts being overdrawn.

The benefit broker's contract was not actively managed to ensure quality service and manage costs. The contractor's payment structure was based on commissions. The contract set a cap on the amount the broker could receive in a given period of time. However, the broker received commissions directly from insurance providers. This fee structure was unique among the other local governments we contacted.

HR did not monitor the commissions collected by the broker. In total, the broker reported collecting $305,000 in commissions for the period FY 2004-05 to FY 2008-09. Based on our analysis, commissions received by the broker were over the contracted maximum by at least $25,000 during that period. Commissions paid by insurance providers were passed through to Metro via higher insurance rates. This increased the rates Metro pays for medical, dental, vision and life insurance.

The contracts HR had for the Employee Assistance Program (EAP) and Wellness Programs also showed ineffective management. The same contractor was used for both programs but there were two separate contracts, which caused confusion. We found that payments were made to the contractor without being appropriately linked to the right contract. By

the time the error was discovered, about $53,000 in payments for EAP and about $2,500 in payments for the Wellness contract had been made, but not tied to either contract.

Lack of contract management had budgetary impacts. The EAP contract was overdrawn by $16,887 at the time the error was discovered. At the same time, an extension of the EAP contract was approved that doubled the contract value. The extension increased the per year cost for the program by more than 50% from $9,000 per year in the original contract to $14,000 per year.

Policies and procedures need strengthening

Generally, the Payroll and Benefits programs lacked well defined policies and procedures. There was a well developed desk manual for the personnel function in HR, but documented guidance for Payroll and Benefit staff was underdeveloped or nonexistent. No policies or procedures manuals were available for the benefits function. This increased the risk of inconsistent and inaccurate processes and increased confusion about roles and responsibilities throughout the process.

There were two primary tools available to Payroll staff to guide them in their work, single topic "how to" procedures and a payroll checklist to document completion of each step of the semi-monthly payroll process. Both tools were inadequate. In general, the "how to" documents provided valuable information about how various tasks are completed, but did not cover all tasks and were underdeveloped in a number of ways.

The payroll checklist was very long, but did not contain enough information to determine who was responsible for the task, the order tasks needed to be done and the purpose the task was meant to serve. While observing the payroll process, we learned that in practice the checklist often was not used and when it was, steps were skipped and descriptions were not understood. The checklist also contained steps that were not relevant to Metro. The checklist was not reviewed to ensure that steps were completed.

Clear policies and procedures were especially important, given the many manual processes used to calculate payment amounts. Manual processes increased the risk of over- or underpayments and reduced transparency about how calculations were made. In addition, we found that spot-checks or other management tools were not done to ensure the consistency and accuracy of manual calculations.

While it may not be possible to eliminate all manual processes, it is important to implement standard policies and procedures to control risk and provide clear guidance to staff. This was especially true for high risk areas with complex calculations and there was a lack of documentation about how calculations were made. The high risk areas we identified in the audit include retroactive and bonus payments, deductions for union dues and health benefits and edits to the text files and journal entries used to reconcile data as it transferred from Kronos to PeopleSoft HRMS to PeopleSoft Financials.

Stronger controls needed to ensure accuracy

Because of risks outlined above, we tested payroll and benefit data to determine if information was accurate and to detect potential fraud or abuse. We found no indications of fraud or abuse, but controls over data accuracy and consistency need to be strengthened.

These tests provided reasonable assurance that payroll data was accurate and complete, but several risk areas were identified. Risk areas included manual calculations, inconsistent use of earnings codes, security settings to maintain segregation of duties in information technology systems and insufficient clarity about the causes of discrepancies in the general ledger transfer file.

HR's health insurance enrollment records were not consistent with lists obtained from insurance providers. Inconsistencies were found in some names, birthdates, coverage levels and the total number of covered employees and dependents. Maintaining accurate records of employee and dependent health insurance coverage is important. Inaccurate data can prevent eligible employees or their dependents from getting services. Conversely, ineligible employees or dependents may receive coverage when they should not. Because renewal rates are based on the history of utilization of benefits, ineligible participants can drive up usage and affect renewal rates.

During the audit, we also learned that HR did not monitor the eligibility of dependents enrolled in its health insurance plans. Industry data shows that dependents cost an average of $1,900 per year and typically anywhere from 3-8% of covered dependents are not eligible for coverage. If industry data holds for Metro, the savings associated with verifying dependent eligibility could be in the range of $57,000 to $153,000 per year. While verifying that all dependents are eligible might be too costly, there are methods available to focus on smaller groups of covered dependents.

Exhibit 7
Potential Impact of Covering Ineligible Dependents

	Total	3% Ineligible	8% Ineligible
Dependents	1,008	30	81
Annual Cost	$1,915,200	$57,456	$153,216

Source: Auditor's Office analysis based on data from insurance providers and Mercer's "National Survey of Employer-Sponsored Health Plans."

Recommendations

1. To increase the effectiveness and efficiency of the payroll and benefits process:

   a. Metro should assign primary responsibility for the payroll and benefits business processes.

   b. Conduct an evaluation of the three automated systems currently used in order to access full functionality of each.

2. The designated owner of the business process in conjunction with the other two departments should review the business processes for payroll and benefits and determine process improvements that will:

   a. Provide guidance to IS to create profiles within the automated systems that successfully segregate duties.

   b. Allow greater transparency of health care benefit cost calculation and allocation.

   c. Better manage vendor contracts and the quality of services.

   d. Improve the accuracy of data in the automated systems.

   e. Reduce manual processes and calculations that can be managed within the automated systems.

   f. Improve the quality of information available to make health benefit decisions.

3. Once leadership is assigned, the Human Resources, Finance and Regulatory Services, and Information Services Departments should:

   a. Assign roles and responsibilities for each aspect of the process.

   b. Develop clear policies and procedures for each departmental segment.

MANAGEMENT RESPONSE

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Date: July 26, 2010

To: Suzanne Flynn, Metro Auditor

From: Michael Jordan, Chief Operating Officer
Scott Robinson, Deputy Chief Operating Officer
Mary Rowe, Human Resources Director

Cc: Amy Davis, Payroll Supervisor
Jodi Wilson, Benefits Program Manager

Re: Management Response to Payroll and Benefits Audit

The following represents our response to the audit report which will be issued by your office later this month. As a public agency we recognize the importance of ensuring that public funds are managed responsibly with proper controls in place. We are pleased that you found no evidence of fraud or abuse during the time period studied. Management agrees with the audit recommendations and has already begun to make improvements to the programs. There is new staff in benefits and HR leadership since many of the practices raised in the audit were implemented. Current staff is committed to working to address issues raised. We will continue to take action to properly address the recommendations provided in the audit.

Response to Recommendations in the Auditor's Report

The following summarizes management's response to the specific recommendations noted in the audit report.

Recommendation #1

To increase the effectiveness and efficiency of the payroll and benefits processes:

a. **Metro should assign primary responsibility for the payroll and benefits business processes.**

Response: Mary Rowe, as Human Resources Director, has ultimate responsibility for the business processes and for appropriately separating and segregating duties for clarity and ownership of processes in payroll and benefits. She will work in partnership with Information Services to accomplish this. Amy Davis as Payroll Supervisor is assigned to oversee the business processes for payroll. She has begun a review of processes and initiated improvements. Jodi Wilson, who recently was hired as the Benefits Program Manager is assigned to oversee the business processes for Benefits.

b. **Conduct an evaluation of the three automated systems currently used in order to access full functionality of each.**

Response: As noted on page 11 of the audit report the set up for the Kronos, PeopleSoft Financials and PeopleSoft Human Resource Management Systems predates many of the current users. The plan for addressing this is threefold: 1) currently a post payroll meeting is held following the close of each payroll run. Present at those meetings are Payroll Supervisor, Benefits staff, the HRIS Analyst and IS. 2) In addition we will look to work with IS for a more rigorous review of practices. 3) In preparation of that HR will map out work flow processes for several key areas including hiring of a new employee, and separation of an employee. We will then work with an outside consultant to identify if there are efficiencies that can be gained with our current systems. This process mapping will also be useful information should Metro decide to pursue other systems in the future.

Recommendation #2
The designated owner of the business process in conjunction with the other two departments should review the business processes for payroll and benefits and determine process improvements that will:

a. **Provide guidance to IS to create profiles within the automated systems that successfully segregate duties.**

Response: As noted in a prior response we anticipate undertaking workflow process mapping and as part of that we will review levels of access with separation of duties in mind. In addition we have already undertaken interim steps to change the role of the Payroll Technicians so that they can only create text files instead of both creating and changing the files. Currently only the Payroll Supervisor and Payroll Specialist can change these files. The HRIS Analyst will review action and reason codes and remove those that are not used. In addition current security permissions will be reviewed and modified to exclude choices inappropriate to that position.

b. Allow greater transparency of health care benefit cost calculations and allocation.

Response: The Benefits Manager will work with IS and Finance on this. As you are aware there are two aspects to this, an internal review based on current enrollment is used during the budget process to estimate costs of benefits and actual costs are used post open enrollment. Both aspects are tracked throughout the process to provide transparency.

The other portion of the issue raised in this section of the audit is language regarding how the premiums will be shared by Metro and each employee for specific plans. The language in some places can be made clearer; however, this language is determined through the collective bargaining process and cannot be unilaterally changed by management. One union did transition to new language as a result of the collective bargaining process since the audit was conducted. The language provides clearer direction as to how to share the cost of the health insurance premiums.

c. Better manage vendor contracts and the quality of service.

Response: Duly noted that we can improve oversight of contracts.

d. Improve the accuracy of data in the automated systems.

Response: As part of the benefits process review we will look at how the codes are used and will review the quality and integrity of the data when it is transferred between systems. As an example where data is passed between systems we will look to establish a quality control process such as an annual post open enrollment audit. HR will budget and complete a dependent audit as part of the 2011-12 fiscal cycle.

e. Reduce manual processes and calculations that can be managed within the automated systems.

Response: The full process review cited above will be completed to address this issue. In addition in the short term, Payroll has already begun automating some of the processes that were manual at the time of the audit. Identified by the audit were manual processes for calculations of prorated benefits for part time and job share employees, retroactive checks, and dues for temporary employees in the LIUNA bargaining unit. Automated systems have already been put in place for the retroactive pay increases and most union dues. The calculation for LIUNA 483 temporary employees requires manual calculations, but the request to change the calculation has been documented. Others will be addressed.

f. Improve the quality of information available to make health benefit decisions.

Response: The Benefits Manager and HR Director have discussed way to educate the Joint Labor Management Committee members on not only overall health insurance cost drivers but also the impacts of specific plan design changes. The JLMC reconvenes in September. The agenda for the JLMC is developed in conjunction with the union co-facilitator. Human Resources will request that the meetings at the start of the plan year be used for education of members. Therefore, when presented with plan options in the February/March time frame the Joint Labor Management Committee members will be able to make more fully informed decisions. Ultimately the decision for which plans to offer falls to the Human Resources Director and the Chief Operating Officer. The information will also be available to them, either through participation in the meetings or written follow up.

Recommendation # 3

Once leadership is assigned, the Human Resources, Finance and Regulatory Services, and Information Services Departments should:

a. Assign roles and responsibilities for each aspect of the process.

Response: Noted and will address through work flow process mapping.

b. Develop clear policies and procedures for each departmental segment.

Response: Payroll has been documenting procedures for processes as they are refined and automated. The Benefits Manager is reviewing current benefit and FMLA policies. From there procedures will be written and where feasible, suggestions for revisions in policies will be implemented.

As current processes are reviewed and new ones developed they will be documented so that there is transparency, efficiency, and ease of cross training. In Payroll, the documented checklist is currently a living document and is updated as new steps are identified or changed. In addition, each step indicates who is responsible for completing that task. Areas will also be noted for policy development and establishing appropriate criteria to use for key decisions regarding such practices such as segregation of duties as noted in recommendation 2a.

We appreciate the time you and your staff took in conducting the audit and the insight that it provides for continuing our process improvement efforts.

Michael Jordan 7/27/10

Michael Jordan DATE

Chief Operating Officer

Scott Robinson 7/27/10

Scott Robinson DATE

Deputy Chief Operating Officer

Mary Rowe 7-27-10

Mary Rowe DATE

Human Resources Director

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