



## Harford County, Maryland

### Office of the County Auditor

# Employee Benefits Administration Agreed Upon Procedures (AUP) Report

**AUP Number: 2018-A-11**

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**Submitted to:**

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# Independent Accountant's Report on Applying Agreed-Upon Procedures (AUP)

## **Report Highlights**

### **Why We Performed This AUP**

This AUP was conducted to ensure that Harford County's control procedures related to the administration of employee benefits were properly designed and operating effectively.

### **What We Recommend**

The County should develop written policies and procedures for employee benefits administration.

The County should develop a written succession plan for the key roles related to the administration of employee benefits.

The County should ensure information entered into the HRIS matches the supporting documentation.

The County should document and implement procedures to ensure that employees who are terminated or retired are timely identified and invoice adjustments are communicated to the providers.

## **Background**

Hamilton Enterprises, LLC (Hamilton) was engaged by the Harford County, Maryland, Office of the County Auditor to perform agreed upon procedures (AUP) related to the Harford County's Employee Benefits Administration. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. The procedures performed, and sufficiency thereof, were agreed to by the County Auditor. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County Auditor, Audit Advisory Board, and those charged with Harford County governance and is not intended and should not be used by anyone other than those specified parties. Our work was conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office (GAO).

## **Objectives and Scope**

The objectives of this engagement were to confirm the adequacy of the procedures in place to ensure that Harford County employees received the correct benefits, appropriate premiums were collected and the County monitored its outgoing payments for benefits provided. Our procedures include an assessment of Harford County's controls related to the process for employees' selection of benefits, implementing those selections, remitting deductions to vendors and ensuring that correct data had been provided to those vendors and benefits were utilized by the employees.

## **What We Found**

There were no written policies and procedures developed for the administration of employee benefits by the County.

Written succession plans were not developed for key roles related to the administration of employee benefits.

Found instances where information entered into the HRIS did not match the supporting documentation.

Found instances where employees who were terminated or retired were not timely identified and invoice adjustments were not communicated to the providers.

We would like to take this opportunity to express our appreciation for the courtesy and cooperation Harford County has extended us. If you have any questions or concerns regarding any of the findings please feel free to contact Melissa Hamilton at (301) 474-0147 or [melissa.hamilton@usfti.com](mailto:melissa.hamilton@usfti.com).

*Hamilton Enterprises LLC*

Greenbelt, Maryland  
May 11, 2018

# 1 Background

Harford County Government is committed to providing benefits to its employees. Employees can select the benefits made available to them which includes:

**CountyFlex Benefits Program:** The CountyFlex Benefits Program enables employees to customize their benefits so that they only have the benefits they really want and need. Employees can select benefit options that match their family status, creating a benefits plan that reflects their own personal choice and preferences. The CountyFlex Benefits Program has benefits which include medical, dental, vision and flexible spending accounts. The cost of these benefits is shared by the County. Employees may elect or decline these benefits based on their family's needs. Once each year, Harford County Government holds an Open Enrollment period and all employees are advised to review their insurance needs and their family's insurance needs at that time.

**Retirement:** Participation in the Maryland State Retirement and Pension Systems is mandatory for all classified employees; full time and part time who work a minimum of 500 hours in a fiscal year. Effective July 1, 2006, Harford County Government elected to transfer all employees currently enrolled in the Employees' Contributory Pension System to the Employees' Alternate Contributory Pension Systems. All employees who are anticipated to work more than 500 hours in a year will be enrolled in the Pension System.

**Life Insurance:** The County provides group life insurance in the amount of \$20,000 for eligible employees at no cost to the employee. The Group Life Insurance Plan is administered by Standard Insurance Company.

In addition, the benefit package also includes other optional benefits which include: AFLAC, Death Benefits, Deferred Compensation, Employee Assistance Program, Additional life Insurance and Long-Term Disability (LTD) plan.

# 2 Agreed Upon Procedures Objectives

The objectives of our engagement were to confirm the adequacy of the procedures in place to ensure that Harford County employees receive the correct benefits, appropriate premiums were collected and the County monitors its outgoing payments for benefits provided. Our procedures included an assessment of Harford County's controls related to the process for employees selecting benefits, implementing those selections, remitting deductions to vendors and ensuring correct data had been provided to those vendors and benefits were utilized by the employees.

# 3 Scope

The scope of the engagement covers the period January 1, 2016 through December 31, 2017. The engagement is limited to Harford County's controls that ensure proper data was provided to relevant providers. Our scope does not include confirmation of specific employee benefit payments such as health insurance claims.

# 4 Procedures and Results

In order to accomplish our objectives, we performed the following steps:

1. *Procedure:* Hamilton interviewed the Harford County Benefit Manager, Payroll Manager and other employees with responsibilities over employee benefits administration.

*Result:* We were able to gather an understanding of the County's overall policy environment and related control procedures. During the interview, we confirmed that there were no written policies and

procedures for the Employee Benefit Administration and a written succession plan had not been created for the Benefit Manager's retirement. See **Finding 1 and 2**.

2. *Procedure:* Hamilton obtained a listing of employees from Harford County and selected a sample of forty-five (45) employees (Sample #1) to verify that the employee's assigned "EE" code matches the employee type according to the most recent employee authorized designation. In addition, we used the same sample to verify that the employees were eligible for the selected benefits.

*Result:*

- We identified one (1) out of forty-five (45) sample that the EE code in the Human Resources Information System (HRIS) did not agree with the HR records. See **Finding 3**.
- While we did find the issue noted above, we did not identify a situation where an ineligible employee was provided benefits or an eligible employee was denied benefits. The result identified above did not affect the determination for benefit eligibility.

3. *Procedure:* Hamilton sampled employees to verify that benefit enrollments were supported by employee benefit enrollment forms or other supporting documentation authorized by the employee. We also attempted to verify that the enrollment data in the HRIS matches the supporting documentation.

*Result:*

- Harford County confirmed that the CountyFlex Benefits Program (Health and Dental Insurance) and Flexible spending plans enrollments were selected through the Employee Portal. The Open Enrollment process is programmed once a year and is only open for a specified period. The employee portal is directly linked to the HRIS and payroll systems. The enrollments update automatically in the payroll and HRIS modules/functions within the system. The HR department is not able to view the employee benefit selections within the employee portal. Only employees can log in to the employee portal to select the benefits during the open enrollment period. The HR department can change the benefit enrollment for the employee only when the HR department gets the permission from the employee.
- Other optional benefits are selected through the vendor, the County does not keep or have access to the records for employee enrollments.
- Management asserts (by signing a Management Representation Letter) that benefits information contained within HRIS is the same as what is selected by the employee through the employee portal.

4. *Procedure:* Hamilton verified the benefits selected by the employee, as identified in the HRIS, matches the providers' invoices and other supporting documentation.

*Result:*

- For pension, the County provided us with a report from their Cyborg payroll system (transmission file version) that they send to the State Retirement Agency. The County was not able to provide us with the detailed enrollment list from the State retirement and pension system.
- For benefits of Liberty Mutual, Delta Dental, FSA Health and Aflac-Life testing, the County was not able to provide us the detailed supporting documentation from providers to support the employees were enrolled in the plan. However, we inquired about the process to get comfort over the County's role in administering those benefits.
- Management asserts (by signing a Management Representation Letter) that benefits information contained within HRIS is the same as what is selected by the employee through the employee portal.

5. *Procedure:* Hamilton obtained a listing of terminated and retired employees from Harford County during the testing period and selected a sample of forty-five (45) (Sample #2) to verify that the termination or retirement was authorized as evidenced by signature from the authorized person from the department and effective date of termination and the date of retirement or termination in the HRIS matches the supporting documentation.

*Result:*

- All the sampled terminations or retirements were authorized with a signature from an authorized person from the departments.
- There were four (4) out of forty-five (45) samples where the effective date of termination or retirement was different between the HR information system and HR records. The differences were all within one (1) day.

6. *Procedure:* Hamilton verified that the payroll (including benefits deductions) system's automated workflow had been reviewed and authorized by the payroll manager.

*Result:* There is no audit log in the Payroll processing system or additional documentation to support that employee deductions were reviewed and overall payroll reviewed and approved each pay period. In addition, the County confirmed that neither the HR department nor Payroll department closely reviewed the benefit deduction during payroll processing. Management asserts (by signing a Management Representation Letter) that the employee portal is directly linked to the HRIS and payroll systems and benefits information contained within HRIS is the same as what is selected by the employee through the employee portal.

7. *Procedure:* Hamilton attempted to verify that premium deduction on the employee paycheck/stub is correct according to their benefit selection.

*Result:*

- For one (1) employee, the County stated that the pension standard hours are listed as sixty-four (64) hours per pay period during our sampled testing period. However, according to the provided documentation, we noted that the standard hours should be seventy (70) hours per pay period. There is a difference of \$6.11 per pay period. The Maryland State Retirement Agency periodically audits the County's pension enrollments as an additional control.
- For the Liberty Mutual and Universal Life insurance, we were not able to perform the procedures because the County could not provide the documentation of the employees' deduction amounts per pay period within the period evaluated. However, we inquired about the process to get comfort over the County's role in administering those benefits.

8. *Procedure:* Hamilton attempted to verify that no unauthorized premium deductions (premiums for a benefit not selected by the employee) were made from the employees' paycheck.

*Result:*

- The HR department could not provide us with the supporting documentation for the benefit enrollments. We used the records of enrollment in the HRIS to perform the procedures which was only for benefits of Health Insurance, Dental Insurance and Flexible Spending Accounts. We found no instance where an employees' benefit selection as provided by the HR information system did not match the deductions.
- For other benefits, this procedure could not be performed, because no employee enrollment records were kept in the HRIS.
- Management asserts (by signing a Management Representation Letter) that benefits information contained within HRIS is the same as what is selected by the employee through the employee portal.

9. *Procedure:* Review vendor (all benefit providers) payments between October 2016 to March 2017 (Sample#3) to the benefit providers in order to verify the invoices and payments were reviewed and authorized by the payroll manager. Also, verify payments were made to the corresponding vendor for the correct amount according to the authorized payment request and payments were made on time according to the invoice. (Before the due date).

*Result:*

- All payments to the providers were approved by the payroll manager, except for the ones which were paid through wire transfers. For instance, the payment of pension and deferred compensation and flexible spending plans.
- We found three (3) payments to the Transamerica Life Insurance Company were paid after the due date. For the payment made to the Standard Insurance Company in June 2017, it included March 2017 and April 2017 premium payments, which were considered as late payments. According to the County, this was due to the fact that the County does not pay the providers until the payroll run is completed each pay period. In addition, these two vendors did not complain or assess any penalties.

10. *Procedure:* Hamilton reviewed selected vendor invoices to verify reconciliations were performed between vendor invoices and employee deductions.

*Result:*

- Reconciliations were performed on a monthly basis for the invoices of Carefirst, Transamerica Life Insurance Company and Reliastar Life Insurance Company within our testing period.

11. *Procedure:* Hamilton verified the premium of sampled employees on the providers' invoice were correct according to their benefit selection and premiums records from HR.

*Result:*

- The premiums of Health and Vision insurance were correct according to the provider's (CareFirst) invoices.
- For pensions, the County transfers the employee deduction amounts to the state pension agency on the monthly basis with the report from the payroll system.
- For the dental insurance, the County pays a flat administration fee on the monthly basis. At the end of the year, a true-up is performed according to the premiums collected and total claims during the fiscal year. Any differences in the true-up are paid by the County as required.
- For other benefits, the County did not keep the records for the employee deduction information, but reconciliations between the invoiced premiums and payroll deductions were performed when the invoices are received.

12. *Procedure:* Hamilton verified that premiums were not charged to terminated employees the month after termination and the appropriate adjustments were made for retirees according to the BlueCross invoice.

*Result:*

- We identified thirteen (13) terminated employees were still included in the next CareFirst after their termination. The County stated that adjustments are made after the fact, but after reviewing the additional documents provided by the County, we identified three (3) out of (13) terminated employees adjustments were not processed. See **Finding 4**.
- We identified six (6) retired employees were not moved from the employee plan to the retired employee plan according to the CareFirst invoice in the month after their retirements. The adjustments were made in the invoices of the following month.

13. *Procedure:* Observe employee module to ensure that employees have access to their current benefit selections. Also verify that employees have access to the Employee Handbook through the module allowing them to access information related to all benefit offerings.

*Result:* According to our walkthrough we noted that employees have access to the employee handbook and benefit information through the employee portal. In addition, the HR department provided the orientation materials related to employee benefits for new employees. During the annual open enrollment period, the HR department helps employees to select benefits.

## 5 AUP Findings and Recommendations

### 5.1 Written Policies and Procedures

***Finding 1: Without written policies and procedures for employee benefits administration, the County may not be able to effectively administer employee benefits.***

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GAO Standards for Internal Control in the Federal Government (Greenbook) Principle 3 describes documentation of the internal control system "to meet operational needs". "Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored by the entity."

***Recommendation:*** The County should develop written policies and procedures for the administration of employee benefits.

***Management's Response:*** Management currently has procedures in place for the payroll side of benefits administration. Human Resources recognizes that there is a need for written procedures and is currently working on and hope to have complete within one year.

***Hamilton's Reply:*** We agree with the County's response and corrective actions.

### 5.2 Succession Plan for Key Employee Roles

***Finding 2: Without a succession plan for the benefit manager, their retirement may negatively affect the administration of employee benefits.***

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Greenbook Principle 4 describes the plans for key roles to "chooses succession candidates, and trains succession candidates to assume the key roles. If management relies on a service organization to fulfill the assigned responsibilities of key roles in the entity, management assesses whether the service organization can continue in these key roles, identifies other candidate organizations for the roles, and implements processes to enable knowledge sharing with the succession candidate organization."

***Recommendation:*** The County should develop a written succession plan for the retirement of the benefit manager and other key employees to ensure continuity of operations.

***Management's Response:*** Management currently has a succession plan in place for the payroll side of benefits administration and has identified three different employees within Human Resources to ensure continuity of operations as benefit manager.

***Hamilton's Reply:*** Based on our discussions during our exit conference, the county agrees to update its standard operating procedures to include a written succession plan.

### 5.3 HR System Records and Source Documents

**Finding 3: HR System (HRIS) information does not match supporting documentation.**

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During our testing we identified that the assigned “EE” code of an employee in the HRIS was different from the supporting documents. A risk exists that an employee’s eligibility for benefits could be improperly determined.

**Recommendation:** The County should ensure that the information that is entered into the HRIS matches the supporting documentation.

**Management’s Response:** Management disagrees with the audit finding. The employee was coded correctly in our HR system. The Personnel Action Authorization (PAA) form was from 2013 and has since been updated to include both codes.

**Hamilton’s Reply:** Although management disagrees with our finding, management was not able to provide us with the evidence requested. This finding remains.

### 5.4 Timely Updates of Employee Status and Related Adjustments

**Finding 4: Provider invoices did not reflect updates of employee status and adjustments.**

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During our testing we identified that some terminated employees were not removed from the CareFirst on time and retired employees were not moved to the retired employee health plan on time according to the CareFirst invoice. This causes the billed/deducted premiums to be incorrect.

**Recommendation:** The County should document and implement procedures to ensure that employees who are terminated or retired are timely identified and invoice adjustments are communicated to the providers.

**Management’s Response:** Management disagrees with the audit finding. Due to timing issues there is an unavoidable lag time between termination date and invoices. However, we have an agreement with our provider and any situation is always reconciled within 90 days.

**Hamilton’s Reply:** We verified the agreement with the provider which states that related differences will be reconciled and payment adjustments will be made within 100 days. After additional documents were provided by the County to be tested, we noted that adjustments were not made for three (3) terminated employees by the provider. This finding remains.