

TO: THE COMMON COUNCIL

DATE: August 12, 2010

FROM: THE DEPARTMENT OF
AUDIT & CONTROL

SUBJECT: Compensation & Benefits Audit Update
Item No. 6, C.C.P., 1/5/2010

Attached please find an audit report updating our findings previously filed relating to the Department of Human Resources Division of Compensation and Benefits. Due to the nature of this critical cost center to the City and considering how important this area is to the lives of our employees and retirees, we felt it was necessary to check back to see what efforts were made to improve upon the problems identified in the initial audit.

The Mayor was rightfully concerned over what was discovered and issued a memorandum to the Department which outlined exactly what needed to be done to correct the issues from the audit. We used that memorandum as a guide to track the Department's progress. Unfortunately, we found that very little has actually been done.

Perhaps the most pressing issue to emerge out of our review was the discovery that the City has been paying health insurance for deceased former employees. There are 152 in total that cost the City approximately 1.9 million dollars, we estimate. This could have been largely avoided if the Department had purchased the Social Security Death Index. The Index with monthly updates would cost \$34,585 from the United States Department of Commerce's National Technical Information Service. Even without the purchase, the Division of Audit was able to calculate this finding using free services available on the Internet. We urge the Administration to take the necessary steps to recover the lost premiums as soon as possible.

At issue is the fact that the crucial integrity of the database utilized by the Division of Compensation and Benefits for the purpose of determining proper health care coverage for employees and retirees is in serious doubt, as evidenced by the points made in this follow up audit.

A properly trained and qualified staff is required, along with a review of its mission. The addition of a Senior Accountant and a new Director may not be enough to effectuate the level of change necessary. There must be a renewed sense of urgency to address the outstanding issues and systemic problems that plague this Department to prevent the risk of continued financial losses to the City.

If you have any further questions on this matter, please feel free to contact the Department of Audit and Control.

DEPARTMENT HEAD: Andrew A. SanFilippo

TITLE: Comptroller

SIGNATURE:



DEPARTMENT OF AUDIT & CONTROL

AUDIT UPDATE OF THE
DEPARTMENT OF HUMAN
RESOURCES DIVISION OF
COMPENSATION & BENEFITS

ANDREW A. SANFILIPPO
COMPTROLLER



DARRYL McPHERSON
CITY AUDITOR

AUGUST 2010

Introduction

On December 30, 2009, the Comptroller filed an audit report of the City of Buffalo's Department of Human Resources, Division of Compensation and Benefits (the "Division"). The report outlined long-standing, serious procedural problems, and included recommendations to immediately address these problems and improve the functionality of the Division. The following is an update of the progress made on the more critical issues since the original report was filed eight months ago.

Additionally, in a letter dated January 11, 2010, Mayor Byron Brown directed the Division to **take several actions in response to the Comptroller's audit report, and a subsequent investigation by personnel from the Corporation Counsel's office and the Division of Budget**. The following report reviews the progress made on Mayor Brown's directives.

As a result of our original audit report, the Mayor's letter requested the following major items to be addressed by the Department of Human Resources (comments addressing the status of each item are below):

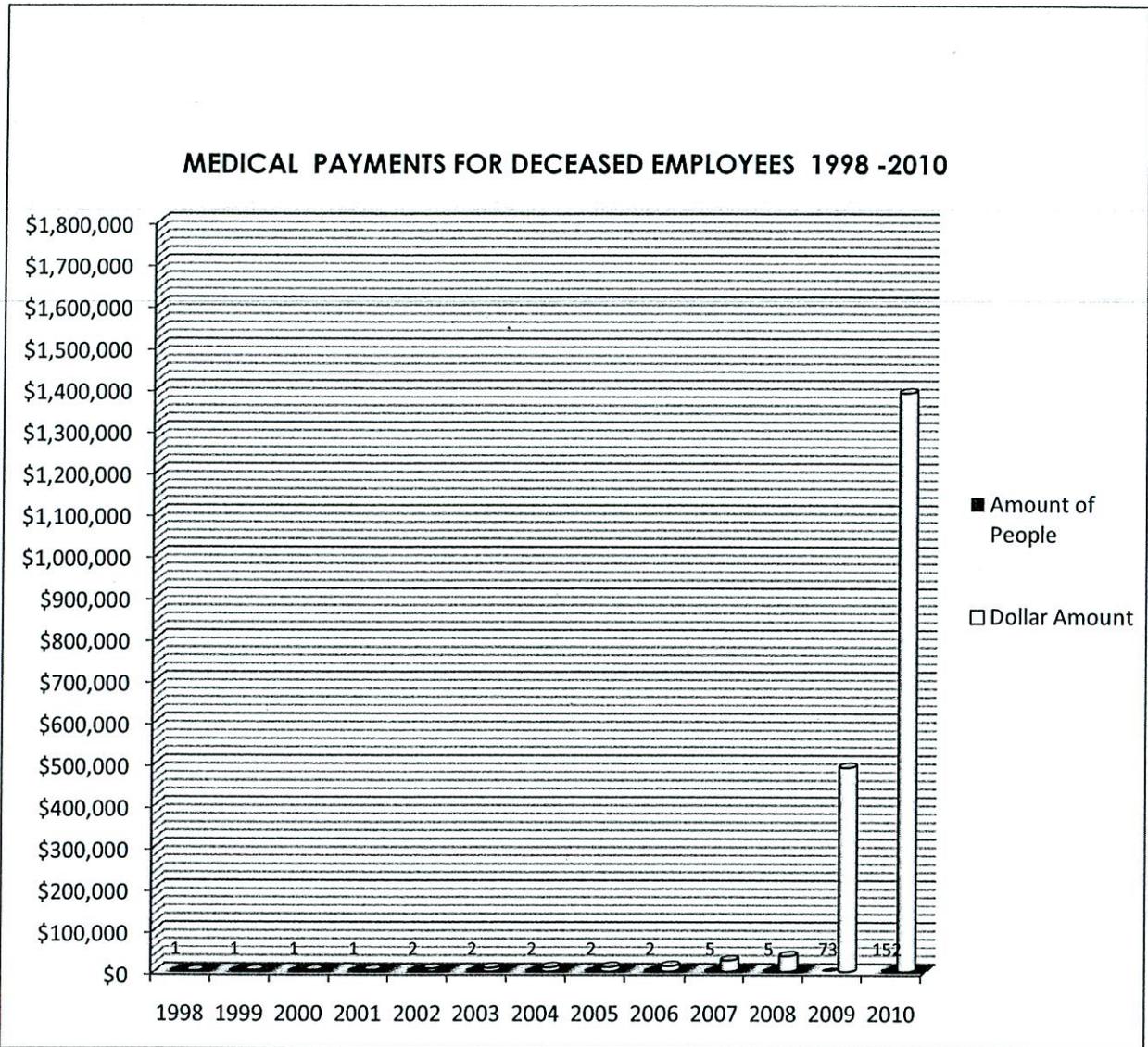
1. The Division of Compensation and Benefits shall **immediately** subscribe to the Social Security Administration's monthly reports of death listings.
2. The Commissioner of Human Resources shall **immediately** take steps necessary, to the satisfaction of the Comptroller, for recoupment of the erroneous \$526,309.57 double payment to Health Now cited by the City Auditor.
3. Outstanding reconciliations related to health care billing should be completed **by March 1**.
4. MIS shall have the MUNIS payroll system **fully integrated** with the Division of Compensation and Benefits by March 1.
5. The position of Senior Accountant in the Division should be restored upon the approval of the position by the Common Council.
6. The Division shall work with the Department of Management Information Systems ("MIS") to **immediately** create Healthcare and Dental enrollment, change, and waiver forms to be posted online.
7. The Division shall **immediately** create information packets and form letters for each bargaining unit's new hires, retirees, terminated employees and survivors of deceased beneficiaries.

Immediate Purchase of Monthly Reports to Social Security

Through sampling techniques, our December 2009 audit revealed that **deceased employees were being carried on the City's records**. As such, we recommended the use of the Social Security Death Master File to identify deceased employees in the City's database; the Mayor also directed the Division of Compensation and Benefits to **immediately** purchase the monthly database in his January 11, 2010 communication.

The Division not only failed to **immediately** purchase the Social Security Death Index to remove any deceased employees on our medical insurance rolls, as of the issuance of this follow up report eight months later the Division has still not purchased the database. Since health care is one of the largest cost centers of the City, this is a major finding.

To determine a more accurate assessment of how many deceased employees were in fact still active in the City's healthcare database, we accessed the Social Security Death Index through secondary sources, *available without charge over the Internet*. Using the June 2010 healthcare bill submitted for payment by the Division of Compensation and Benefits to the Division of Audit, we checked each employee listed against the Death Index. **We found 152 employees for whom the City was paying medical benefits, who were in fact deceased. This has resulted in an estimated \$1.998 million taxpayer dollars being spent on healthcare premiums for deceased employees.** The majority of the employees died within the last 3 fiscal years, representing 96% of the costs, but some had deceased as long ago as 1998.



In order to get an estimate of the lost cost to the taxpayers, we used the rate classification (e.g. Married, Single, etc) in effect as of June 30, 2010. For each month the employee was deceased in the various years, we multiplied the rate in effect for the so-classified employee to get an estimate of the cost for each fiscal year. There are inherent limitations because we used the historical rate schedule provided by the Division of Compensation and Benefits for the prior years' costs. Our experience is that these rates were not always accurate or in agreement with those the medical carrier billed.

Recoupment of the \$526,309 Double Payment

The Mayor also directed the Human Resources Commissioner to secure a credit from Health Now for the double payments noted in our December 2009 audit of \$526,309.57. This amount has yet to be recovered. Communication from the City Auditor requesting action on this in time for the July 2010 bill was met with a request by the Division to delay recoupment until sometime

in the future, when the City and Health Now agree they have adjusted all past outstanding discrepancies. The Division and Health Now have been working together in good faith under the idea that the overpayment could be offset by these adjustments. My office believes the overpayment and the adjustments are separate items which should be addressed separately. If the Division cannot resolve these discrepancy adjustments in a more timely manner, we recommend stronger and immediate action be taken to recover the funds.

Outstanding Reconciliations Completed by March 1.

The Mayor wanted all outstanding reconciliations completed by March 1, 2010. He also wanted the City's payments to Health Now to be up to date. As of mid-April, the Division of Compensation and Benefits had only put health care billing orders on the system through November, 2009. In order to prevent any potential interruption of health care benefits to employees, the Division of Audit instituted a timely payment process, whereby we paid invoices **with the understanding that any reconciling items would be addressed on the subsequent months' bill**; this would put the City back on a normal self-billing process and any reconciliations would occur within a 30-day period.

As of July 30, payments to Health Now are up to date, but **not all have been reconciled**. Adjustments are not being made within 30 days, questions from Audit regarding billing discrepancies have gone unanswered by the Division, and though some of the changes eventually get completed, they are done so without explanation. In many cases the adjustment is for far less than expected, and any questions by Audit involving complicated situations are simply ignored by the Division.

As previously noted, the Division and Health Now are working in good faith to reconcile outstanding adjustments that existed prior to October, 2009, some going back as far as 2003.

Integration of MUNIS Payroll Data with the Division of Compensation and Benefits

After consultation with the Management Information Systems Department ("MIS"), a comparison of the self-billing program data and MUNIS data has been done each month since January. A copy is sent to the Compensation and Benefits Division monthly. It does not appear that the information in this report is being effectively used in the Division's reconciliation process.

The Mayor also directed that the MUNIS Payroll System be fully integrated with the Division of Compensation and Benefits by March 1, 2010. As of the issuance of this report, this is still a work in progress. Retirees not previously included have been added to the MUNIS database, and deductions are being added, but the full integration is not yet complete and running. We should note that improvements have been made. The self-billing program is compared monthly with that of our medical provider, with differences being noted and corrected. The Division receives verification that the databases are in sync from the medical provider. While this is an

improvement, it still does not take into account changes from MUNIS which the Division neglects to enter manually on the system. MIS assessed the Division's need for an automated database during this period and continues to work with the Division to migrate this database to MUNIS. Our understanding is that monthly eligibility adjustments still occur outside of MUNIS. Perhaps when completely integrated with MUNIS, these changes can happen automatically. MIS personnel whom we consulted have differing opinions on the feasibility of this.

Senior Accountant

As of June 30, 2010, the Division still has not filled the Senior Accountant position that was to be responsible for benefits reconciliation. The Common Council approved a Budget and Personnel Amendment to create the position as Item No. 94 in the Human Resources Department budget of the Common Council Proceedings of January 19, 2010. Given the stated importance of the position in the Department's response to the audit, it should have been filled immediately, regardless of there being no complete Civil Service Eligible List at the time. Any qualified individual within the City of Buffalo could have been hired temporarily, subject to the adoption of the Eligible List.

When the Eligible List was adopted on April 7, 2010, the Department of Audit and Control hired most of the qualified candidates from that and other lists with knowledge and some forbearance by Human Resources. That caused the list to become incomplete again. However, by June 7, 2010, the Human Resources Department was free to hire anyone qualified within the City of Buffalo. Human Resources first advertised the Senior Accountant position as vacant on June 17, 2010, and identified qualified candidates by the middle of July. However, as of August 9, 2010, a final job offer has not been tendered to anyone.

It should be noted that the information packets have been created and are, in fact, being distributed to new hires. We have no indication, however, that the online enrollment, change, and waiver forms have been implemented, as requested by the Mayor.

Dental Payments

Our December 2009 audit revealed that similar problems with incorrect rates and multiple period adjustments occurred with dental payments as well. The City dental provider situation has largely remained the same. There is apparently no interaction between the vendor and our MIS Department to attempt to synchronize their databases. There appears to be no concentrated effort to stay up-to-date with these payments. As of June 30, 2010, claims are paid through May, but administrative fees which require more stringent reconciliation are only paid through March. There is, however, improvement in the Division's response to our questions and comments in our monthly review of dental bills. In response to our audit review of dental, unlike the medical, there is communication and corrective action in most cases. The problem with dental appears to

lie not only with the Division, but the vendor has failed to follow through on improvements they had assured could be instituted through cooperation of theirs and our IT departments.

IOD Payments

The payments for injured-on-duty (commonly known as “IOD”) case management remain a problem. Currently there is a pending payment of \$108,228.00 through claims for prior year invoices. It is our assumption that this will have been processed by the time this update is published. These untimely payments not only reflect unfavorably on the City, but are also unfair to the vendors who have faithfully performed services, but not received payment. This has occurred in the past when other invoices also had to be paid through claims due to the failure to process properly. From the initial audit, we felt this area would improve as the Division became more accustomed to the requirements of processing contracts, invoices, change orders, etc. However, to date, this does not seem evident.

A request was submitted to Audit on June 7, 2010 to forward to the Buffalo Fiscal Stability Authority (BFSA) an increase in the 2009-2010 budget of \$425,000 for the IOD contract. Upon a review of the account line and the BFSA meeting minutes from May 12, 2010, we realized there was a transfer of \$325,000 made to the account on May 18, 2010—well before the request for the \$425,000.00 increase requested by the Division on June 7, 2010. After subsequent discussion with the Budget Division, it appears that this was not necessary; it is an example of the confusion or lack of understanding by the staff members involved in the Division’s decision-making process of what needs to be done.

Conclusion

In conclusion, while there has been some progress, **many of the same problems cited in the December 2009 audit still exist.** At issue is the fact that the crucial integrity of the database utilized by the Division of Compensation and Benefits for the purpose of determining proper health care coverage for employees and retirees is in serious doubt, as evidenced by the points made in this follow up audit.

We ask that corrective action be instituted **immediately** in order to avoid greater financial losses, and to restore the critical integrity of the Human Resources process for City employees. **The 152 deceased employees receiving medical benefits should be deleted from the current bill.** Health Now should be contacted immediately and the City should request they engage in open, good-faith discussions in an attempt to recoup the approximately 1.9 million dollars erroneously paid to Health Now for healthcare for deceased employees as soon as possible. The Social Security Death Index should be purchased and compared to the City’s healthcare rolls immediately; the database can be downloaded online and obtained within a day. We also request once again that the City reconsider pursuing the return of the \$526,309.57 overpayment.

There appears to be a critical lack of urgency in instituting change, and a lack of accuracy in tracking of information (BFSA request status, insurance needs for contracts, etc.), and a failure in initiating the steps necessary to achieve the directives outlined in the audit and reinforced in the Mayor's letter dated January 11, 2010.

The Division has previously stated that filling the position of Senior Accountant is required to fix the myriad problems relating to the administration of medical and dental benefits; therefore the delay in filling the position is difficult to understand. Since it represents such a core function to the successful operation of the Division, every effort from all sides should have been made to fill the job at the first available moment.

We should also note that the position of Director of Compensation and Benefits is currently being filled; we stress the importance in hiring a highly qualified professional not only with extensive knowledge in human resources, but also with proficiency in office management, project management, and staff supervision.



CITY OF BUFFALO & CONTROL
COMPTROLLER'S OFFICE
BYRON W. BROWN
MAYOR 2010 JAN 12 AM 9:55



January 11, 2010

Hon. Andrew A. SanFilippo
Comptroller
1225 City Hall

Dear Comptroller SanFilippo:

As you know, I was concerned with the issues you recently outlined in your Audit of the Division of Compensation and Benefits. As a result, I asked the City's law and budget departments to conduct an investigation into the matter and make further recommendations to me on a course of action.

Based on the Audit and the review of these additional departments, and in consultation with the Commissioner of Human Resources, I have issued the attached directives to administration personnel to address the concerns raised in the Audit. My review is still ongoing and additional action may be taken, including disciplinary action, should it be necessary. I welcome any additional comments or recommendations you may have to improve the function of this Division, and thank you again for your review through this process.

If you have any questions or concerns, please do not hesitate to contact me directly.

Sincerely,

Byron W. Brown
Mayor

Enc.

Memorandum

TO: Karla L. Thomas, Commissioner of Human Resources
Tracy Healy, Director of Compensation and Benefits
Raj Mehta, Acting Chief Information Officer
David Rodriguez, Acting Corporation Counsel

FROM: Byron W. Brown, Mayor 

CC: Andrew A. SanFilippo, City Comptroller
Donna Estrich, Director of Budget
Timothy A. Ball, Assistant Corporation Counsel

SUBJECT: Comptroller's Audit of Division of Compensation and Benefits
Medical, Dental and Case Management Processing and Payments

DATE: January 11, 2010

On January 5, 2010 I directed Assistant Corporation Counsel Timothy Ball and Director of the Budget Donna Estrich to review the City Auditor's Report, the Department of Human Resources response, the Auditor's reply, and to conduct a thorough investigation into the deficiencies highlighted and report to me a recommended course of action. I was very concerned about the issues raised and appreciate the Commissioner of Human Resources cooperation with this review. **Based on this review, which is still ongoing, I am hereby directing the following:**

- **The restoration of the position "Senior Accountant," previously removed during the 2004-2005 fiscal year, will be forwarded to the Common Council for its approval by January 14, 2010 (the next regular filing deadline);**
- **Upon the approval of the restoration of the position by the Common Council, the Senior Accountant shall be responsible for reconciling benefits changes pursuant to the attached procedure. The attached procedure shall be fully implemented and the department shall cross-train other staff members as necessary to insure no further interruption occurs;**
- **The Division of Compensation and Benefits shall forward a Purchase Order to the Department of Audit and Control for the October health care premium by January 19, 2010;**
- **Any outstanding reconciliations shall be completed by March 1, 2010, so that the**

Division is in a position to record real-time status changes using the MUNIS Payroll System;

- The Department of Management Information Systems shall have the MUNIS Payroll System fully integrated with the Division of Compensation and Benefits by **March 1, 2010**;
- The Commissioner of Human Resources shall immediately take all steps necessary, to the satisfaction of the City Comptroller, for the City of Buffalo to receive a credit for the \$526,309.57 for the double payment cited by the City Auditor;
- A Request for Proposals for health care consulting services was issued on December 31, 2009. I am directing the Law Department to work collaboratively with the Department of Audit and Control to ascertain and report on industry standards for consultant pay and alternative payment methods that would insure that any future contract not give the appearance of or tolerate divided loyalties;
- The Division of Compensation and Benefits shall **immediately** subscribe to monthly reports of deaths from the Social Security Administration;
- The Division of Compensation and Benefits shall work with the Department of MIS to **immediately** create and post on-line, Healthcare and Dental, enrollment, change and waiver forms unique to the City of Buffalo;
- The Division of Compensation and Benefits shall **immediately** create information packets and form letters for each bargaining unit's: new hires, retirees, terminated employees and deceased beneficiaries;

As this review is ongoing, additional directives may be issued and/or further action may be required. Thank you for your attention to these directives.