

TO: THE COMMON COUNCIL                      DATE: December 31, 2009

FROM: THE DEPARTMENT OF  
AUDIT & CONTROL

SUBJECT: Audit Report – Division of  
Compensation & Benefits –  
Department of Human  
Resources Response

It is not the normal practice of the Department of Audit and Control to provide a rebuttal to a department's response to an audit report, but in light of the misrepresentations and misunderstandings presented in the Department of Human Resources' response to the Medical, Dental and Case Management Processing and Payments Audit, it is apparently necessary.

We would note that it is highly unusual, if not unprecedented, that a department has made such an effort to both deny any responsibility for its shortfalls, and attempt to lay the blame almost entirely upon the auditing authority. It represents, at best, a failure to understand the role of the auditing function in City government, and at worst, a blatant lack of comprehension of the functions of the department being audited.

In the broadest sense, Human Resources' response (hereinafter, the "Response") casts the failings of the Division of Compensation and Benefits onto the Department of Audit and Control ("A&C") by virtue of the lack of a Senior Accountant to aid in the processing of information for the Division. This effort is erroneous for a number of reasons that lie completely within the responsibility of the Department of Human Resources.

First, proper Human Resources staffing is the responsibility of the Commissioner, not the Department of Audit and Control. The Commissioner is laboring under the serious misconception that A&C has some role in assigning accounting personnel to her department. Upon the death of the employee in that (or any) department, it is incumbent upon the Commissioner to seek a replacement. A&C does not have any exclusive right to hold or employ accounting titles, and never prevented Human Resources from requesting a replacement Senior Accountant. The failure to request an accountant in their annual budget request falls squarely upon the department head. It has been incorrectly posited that the Senior Accountant was assigned to Human Resources from A&C, when in fact; she was a Human Resources employee.

Second, the Commissioner cites an agreement that Audit & Control would assume the responsibilities of the deceased employee. However, there is no such agreement. The Comptroller, the City Accountant and the City Auditor would never have agreed to assume the processing responsibilities of a Human Resources employee. An agreement like that would undermine the very nature of the auditing function, and is a gross misunderstanding of what audit does with respect to the process.

Third, the employee at issue died in 2004. The Response ties a number of problems to this vacancy, which means the department head has done nothing to address it for FIVE years.

Even with the acknowledgement that the department changed hands during that period, it strains credulity that this essential function was left unfilled all of this time, and according to the Commissioner, that somehow the fault lies at the feet of the Department of Audit & Control. The staffing and skill sets required to operate the department and its divisions are the responsibility of the department head. That person must recognize what is necessary to properly administer the day-to-day needs of the department's operation, and make the appropriate requests at budget time to fill them. That clearly was never done.

We will now address the various points in which the Response attempts to sidestep or avoid culpability. Many of these issues circle back to the false claim that Audit and Control failed to provide proper staff support.

## I. General Overview

Human Resources' Response seemingly was developed with the notion that the Division of Compensation and Benefits made no mistakes in the processing of medical and dental payments, and that any failings were due to the lack of Audit and Control assistance. The Response disagrees with every finding, regardless of the type of corrective action that may be necessary or is currently underway. The department fails to recognize the audit as a diagnostic tool to aid the department, and instead implicitly views it as an accusatory instrument.<sup>1</sup>

The Response questions the job duties as provided in the City Charter. The recitation is meant only to inform the reader of the stated duties of the Division of Compensation and Benefits.

## II. Health Now (Blue Cross/Blue Shield) – Medical

1. We do not dispute that the City engages in self-billing. The problem is that self-billing, left in the hands of the Division of Compensation and Benefits, is being done incorrectly, and all errors must be found by Audit personnel. It is Audit's job to check the calculations as performed *by* the Division, not to perform the calculations *for* the Division. The Response seems to agree with the Comptroller's suggested use of the City payroll system as a reconciliation tool, so there should not be any disagreement with our finding.
2. The failure to give timely notification of COBRA rights is a potential liability for the City due to penalties which could be incurred by the City. Nor is it responsible to knowingly maintain inaccurate records under the pretense that there is no financial cost to the City. Actuarial data is needed from these records and the City cannot make proper projections without correct information maintained by this Division.
3. The source information for Compensation and Benefits' \$526,309.57 double-payment of employee bills, which resulted in an overpayment to Health Now was fully explained in the April 1, 2009 letter. Any additional information necessary was always in the possession of the Division; it sprang from their own records.

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<sup>1</sup> We would note that the Law Department reviewed Human Resources' response to the audit.

4. The improper allocation of costs is another example where there is agreement that the Audit is correct, but the problem is purportedly due to Audit and Control not assuming the responsibilities of the deceased accountant, not the department itself.

### III. GHI Dental

There is acknowledgement that the corrective action suggested by the Comptroller will resolve any reconciliation problems. There should be no disagreement with the audit.

### IV. Rates Paid for Medical and Dental Insurance

It was never suggested that Brown and Brown be replaced. We questioned the payment arrangement, which has ethical and loyalty considerations. The value of their services was not at issue, and frankly, the vigorous defense of Brown and Brown makes one wonder even more about the nature of the relationship inasmuch as they are paid by the insurer.

### V. Case Management – IOD

It is acknowledged that late payment was due to the actions of the vendor, yet the Division disagrees with the finding. The point is not that there were no financial penalties, it is acknowledging responsibility for recognizing and correcting a problem.

The remaining comments largely flow from the lack of accounting staff within the department. There is clearly a disconnect relative to the appropriate role a separate audit function has in the overall processing of departmental accounts payable. When errors are detected by the Audit Division, it is incumbent upon the department responsible for the bill or invoice to correct the problem. The Audit Division cannot and should not bear this responsibility for any City department. We exist to check their work, not to do it for them.

### END NOTES

Normally, we would reserve comment on the findings of an audit until after the exit conference. However, due to the numerous problems identified by the audit, we stepped in to assist in instituting reforms immediately over the past few weeks and months. In many ways, we went above and beyond our role in order to make sure the City of Buffalo retained its relationship with Health Now without adverse consequence. We have facilitated meetings with their vendors, paid bills prior to fully auditing them in order to prevent service disruptions and advised them how to proceed going forward. They acknowledge the need for an accountant, yet when this department advises them, said advice is disregarded until this audit.

We find it frustrating that the department head has done little to take ownership or control over this reform effort. It is her department that interacts with these vendors, yet in the face of these payment problems, she allowed A&C to take the reins and seek resolution of any problems.

There has also been a problematic tendency to avoid the minutia of the department's operations, despite our efforts to involve her in the solution.<sup>2</sup>

There has been constant communication between Audit & Control and Compensation & Benefits over the years. We have been operating under the belief that the Department of Human Resources was properly equipped to handle the administration of its duties. As evidenced by the Response, they are in serious need of guidance, which we will continue to provide. At some point, however, the Department needs to take back full responsibility and allow A&C to assist in the essence of its core function – to act as a check and balance on other departments.

If you have any further questions or issues, please feel free to contact the Department of Audit and Control.

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DEPARTMENT HEAD: Darryl McPherson for Comptroller Andrew A. SanFilippo

TITLE: City Auditor/Deputy Comptroller

SIGNATURE:



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<sup>2</sup> At a December 10, 2009 meeting, attempts to explain the issues were rebuffed by the Commissioner as "TMI" (too much information). Further, on December 18, 2009, the Commissioner emailed her desire not to be included in emails that discussed how to develop and manage procedures regarding payment processing.