

May 2019



## Office of Internal Audit

### Why We Did This Audit

Due to the retirement of City's Benefits Director in 2018, the Chief Financial and Administrative Officer requested an audit of City's life insurance benefit program.

### Key Recommendations

- Obtain a new replacement agreement between the City and Guardian which should be executed and proceed through the City's normal contract process.
- Guardian members that cannot be located in MUNIS should be researched and ultimately stricken from the City's plan.
- Ensure an agreement is in place for legacy Water and Sewer employees and develop a review process for premiums.
- Work collaboratively with the City's IT department to establish technology driven proactive reconciliation procedures.
- Update operating procedures to include:
  - Checklists and supervisory reviews to ensure data integrity.
  - Consistent use of codes, dates, and job classes for retired, terminated, or inactive employees.
  - Identifying retirees approaching the age of 75 for timely notifications of lapse of supplemental coverage.
  - Identifying employees/retirees that are deceased and for notifying Guardian of the same.
- Research and correct the OIA's identified misclassifications and erroneous payroll deductions.

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# Life Insurance Benefit Audit Executive Summary

### Background

The City of Springfield offers active employees various benefit options that are administered by the Human Resources (HR) department. Some of the benefits offered include medical, dental, vision, employee assistance, and life insurance. Some benefit programs also continue for City and School retirees. This audit looked at the administration of the life insurance program. The contracted vendor is the Guardian Life Insurance Company (Guardian).

### What We Found

We found that internal controls were not working as intended to ensure the proper administration of the City's life insurance benefit program. The HR department lacked oversight of the program, lacked reconciliation procedures, and relied on manual processes which were prone to errors. These significant deficiencies resulted in numerous misclassifications and data integrity issues. These issues had both a coverage impact on employees/retirees, a direct financial impact on the City, and exposed the City to potential erroneous claims.

Specifically, we found:

- The HR department did not reconcile the information contained in the Guardian invoices to the information contained in the City's accounting system, MUNIS, and other data sources.
- Written operating procedures were outdated and ineffective.
- Vital documents, such as the City's life insurance contract with Guardian, several employee enrollment records, and the legacy Water and Sewer agreement, could not be located by the HR department.
- There were numerous data discrepancies between Guardian invoices and MUNIS, such as employee enrollment, social security numbers, names, birthdates, and dependent information.
- Several employees and retirees had incorrect coverage, or lapses in coverage.
- Some Guardian calculated premium amounts appeared to be calculated incorrectly.
- Retirees were slightly overcharged for Basic Life Insurance.
- Several employees and retirees had incorrect payroll/benefit deductions for life insurance premiums or had no deductions at all.
- The administration and recording of employee and retiree information in the various databases need improvement.
- There were users other than the Insurance Director and her staff that have access to employee benefit records in MUNIS, including the ability to modify life insurance employee deduction setup records.

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**What We Recommend (continued)**

- Contract with Tyler Technologies to obtain a short term onsite MUNIS consultant that is proficient in the Human Resources/Payroll module to advise the department as to best practices and to identify where MUNIS functionality can be optimized.
- Work collaboratively with IT to review user access to benefit records and remove any unnecessary users or excessive access rights. Additionally, this review should be performed periodically.

For more information, please contact Yong No at (413)784-4844 or [yno@springfieldcityhall.com](mailto:yno@springfieldcityhall.com).

**How the OIA's Recommendations Will Benefit the City**

Implementation of the recommendations in this report will potentially help the City realize savings and improve the administration of the City's life insurance benefit program. To date, the City has recovered approximately \$26,000 in actual realized overpayments to Guardian. The Benefits department continues to work diligently in making the OIA's suggested corrections.



## Introduction

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City of Springfield, MA (City or COS) and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following review aligns the authority and goals of the OIA with those of the City. Specifically, this audit addresses the City's values related to accountability such as integrity, fiscal responsibility and transparent practices. The audit also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs and activities.

This report is not intended to be an adverse reflection of the City or of its vendors. The intent is for City management to utilize these findings and recommendations to help in making future well-informed strategic decisions while ultimately meeting City objectives.

## Background

The City offers active employees various benefit options. A few of the benefits offered include medical, dental, vision, employee assistance, flexible spending accounts, deferred compensation and Basic and Supplemental life insurance. Some benefit programs also continue for City and School retirees. These benefit payments constitute a significant expense for the City.

The City's former Insurance Director retired in February 2018. The new Insurance Director discovered some issues surrounding the accuracy of the Human Resources (HR) department's previous administration of the life insurance program. The contracted vendor for life insurance coverage is the Guardian Life Insurance Company (Guardian). The Chief Financial and Administrative Officer requested an audit the life insurance benefits program.

During the time period selected for our audit, the average monthly number of Guardian Life Insurance participants and premiums observed were as follows:

Type of Coverage	Average Number of Members	Average Monthly Premiums	Average City of Springfield Portion
Active Employees Basic	1,206	\$ 3,953	\$ 1,976
Active Employees Supplemental and AD&D	526	17,882	-
Retirees Basic	2,036	13,724	6,862
Retirees Supplemental	203	7,913	-
Spouse Supplemental	Not analyzed	1,499	-
Child Supplemental	Not analyzed	191	-
		\$ 45,162	\$ 8,838

## Objectives, Scope, and Methodology

### Objectives

The primary objective of this audit was to determine if adequate internal controls existed over the administration of life insurance benefit program offered to City employees, retirees, and legacy Water and Sewer employees.

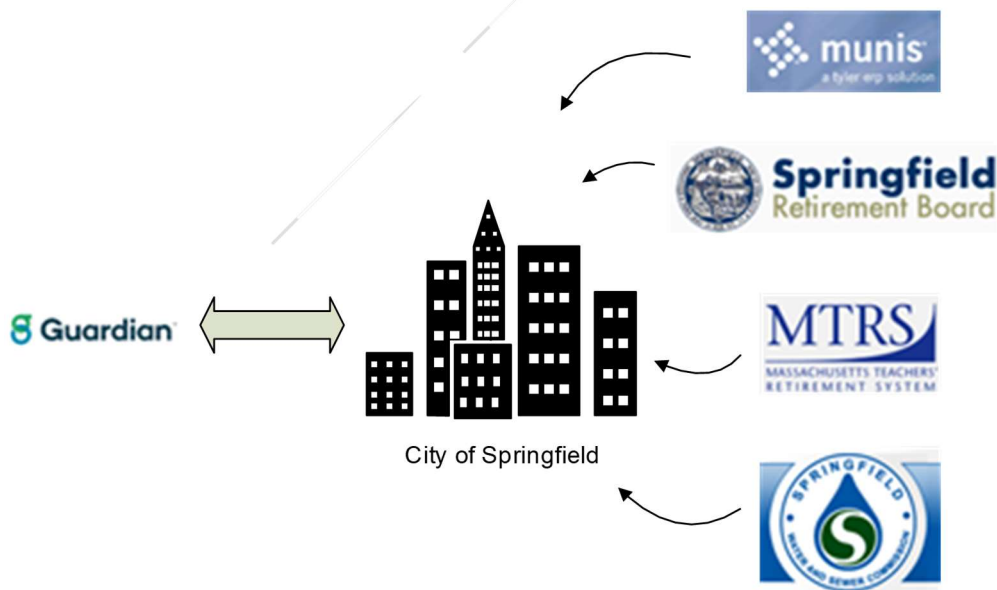
### Scope

The OIA initially selected and examined Guardian life insurance invoices paid and related employee/retiree premiums withheld for the month of February 2018. The results from our initial testing were disconcerting in that 88% of our initial test sample included potential errors. Therefore, we increased our testing to include Fiscal Year 2018 through August 31, 2018.

Due to the HR department changing processes for spouse and child premiums and employee payroll deduction set up at the time of our audit, we excluded these areas from the scope of our audit; OIA used data related to these areas only for comparison purposes. These areas may be subject to review during a future follow up review of the life Insurance benefits program.

### Methodology

To accomplish our objectives, we analyzed the data records in total and also by breaking them down into four categories: active employees with Basic coverage, active employees with Supplemental (aka “voluntary” or “optional”) coverage, retirees with Basic coverage, and retirees with Supplemental coverage. Various sources of data were obtained, including data from the City’s accounting system, MUNIS, Springfield Retirement System, Massachusetts Teachers’ Retirement System, and City data from the Springfield Water and Sewer Commission. Data was then compared to invoice data from Guardian. The following diagram illustrates:





In addition, we performed the following procedures:

- Interviewed HR department personnel to gain an understanding of administering the life insurance program.
- Manually tested a sample of enrollment documents for employees electing life insurance coverage through Guardian.
- Using data analytics software, tested the mathematical accuracy of Guardian invoices.
- Tested the accuracy of Member ID numbers per Guardian Invoices to social security numbers in MUNIS.
- Obtained payroll deduction data, retiree deduction data, current rates/premiums, and billing data.
- Identified current insureds that were over the age of 75 erroneously having Supplemental life insurance.
- Identified insureds that had a deceased code in MUNIS.
- Tested the accuracy of insureds' dates of birth in MUNIS.
- Tested the premium classification of insureds as compared to their status in MUNIS (e.g. active employees vs. retired employees).
- Tested whether premium amounts for Guardian members with Basic coverage matched COS posted rates.
- Tested whether Guardian invoiced amounts matched MUNIS employee actual amounts withheld from payroll.
- Where possible, calculated potential overages/shortages to Guardian from the City (note: our estimated amounts were based solely on our test period and the relevant life insurance coverage; therefore, actual overages/shortages may be different if based on additional affected months/years and after further research of source documents.)
- Collaborated with the new Insurance Director in communicating identified exceptions so that the instances could be researched and corrections made.
- Performed other tests deemed as necessary.

## Findings and Recommendations

The following are audit findings and their potential risks/impact and recommendations.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
1.	<p>The HR department did not reconcile the information contained in the Guardian invoices to the information contained in the City’s accounting system, MUNIS, and other data sources (Springfield Retirement, MTRS, and Springfield Water and Sewer)</p>	<p>HR’s Benefits Division staff is responsible for numerous manual tasks which include, but are not limited to, manually entering benefits changes for new enrollees, coverage changes, terminations, and retroactive adjustments. The staff is knowledgeable and proficient at day to day responsibilities surrounding the life insurance program. We noted that many of the prior data entry tasks were performed by the former Insurance Director.</p> <p>While this may have been deemed an appropriate prioritization of responsibilities given the resources at the time, we found that there was a subsequent failure by HR to reconcile deductions to billing data from Guardian to ensure that the City was not overpaying or underpaying for benefit coverage. There was not a formal process to verify whether employees and retirees were contributing correct or incorrect amounts or were even properly eligible for their benefits. We also noted a reliance on manual processes and institutional knowledge rather than performing reconciliations by using IT data comparison tools to assist in analysis. These manual processes were not documented; logs were not kept for performing and monitoring key tasks.</p> <p>As identified in the following findings in our report, this resulted in numerous misclassifications and data integrity errors that had both a coverage impact on</p>	<p>See individual impact results in the findings below for each various area tested.</p>	<p>Work collaboratively with the City’s IT department to establish technology driven, proactive, periodic reconciliation procedures, ensuring data in Guardian and MUNIS is consistent. Variances and/or discrepancies should be timely investigated.</p> <p>Specifically, reconciliation procedures should be performed after the invoice’s issuance but prior to the due date for the invoice. For each period examined, all components should be assembled such as employee setup data, vendor invoice and coverage data, payroll and pension deductions, and other relevant data. The data will need to be modified to facilitate comparison and then the following can be determined and variances isolated:</p> <ul style="list-style-type: none"> <li>• Are eligible employees set up in MUNIS properly enrolled with Guardian?</li> <li>• Do the setup and deduction amounts match the invoiced benefit coverage amounts and premiums?</li> <li>• Do the setup and billed amounts to Springfield Water and Sewer match MUNIS and invoiced amounts by Guardian?</li> <li>• Do projected retiree amounts agree with deduction amounts per Springfield Retirement and the MTRS?</li> </ul>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		employees/retirees, a direct financial impact on the City, and exposed the City potential erroneous claims. Without full reconciliations of enrollees, there is a risk that enrollment mistakes made in the past will persist.		
2.	The HR department lacked management oversight over the City's life insurance benefit program.	<p>An essential element of internal controls is management oversight and review. Management oversight and review should be performed to detect errors and ensure compliance with policies and procedures.</p> <p>We found that there was a lack of oversight exercised by HR management to independently review the life insurance data for accuracy and to ensure reconciliation procedures were in place and were followed. This lack of management oversight contributed to the numerous misclassifications and data integrity issues discussed in the following sections of this report.</p>	See individual impact results in the findings below for each various area tested.	We recommend that HR management oversight be exercised over the life insurance benefit program by regularly reviewing reconciliations and monitoring adherence to operating procedures.
3.	Written operating procedures were outdated and ineffective.	The development and use of operating procedures should be an integral part of an effective internal control system. Operating procedures provide employees with information to perform their jobs properly and facilitate consistency in the quality and integrity of the end result. Although written operating procedures existed, they were outdated and ineffective as many critical procedures, such as verifying data on Guardian invoices, were not addressed.	See individual impact results in the findings below for each various area tested.	We recommend that the HR department develop and/or update its operating procedures and incorporate the recommendations made throughout this report.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
4.	Vital documents and information could not be located by the HR department.			
a.	The City's life insurance contract with Guardian was unable to be located by the HR department.	At the commencement of our audit, the life insurance contract could not be found, and key concepts, such as a description of employee classes and levels/pricing of coverage, were only available to us by employees with institutional knowledge. During the course of our fieldwork several, key documents were ultimately located by the new Insurance Director; however, a fully executed contract was not located. If the terms are not formally documented and incorporated into an agreement, then the intent of both parties may not be properly understood, vetted or enforceable. Paying an invoice without a fully executed contract in place creates a risk for the City of non-compliance with contractual terms and procurement laws, and/or other applicable standards.	No monetary impact was calculated for this finding.	<p>If the contract cannot be located by HR, then we recommend a new replacement agreement be executed.</p> <p>The full original contract and any renewals should go through the City's normal contract process, including signatures and custody of the contract by the Comptroller's office. HR should enter an annual requisition that references/links the current Guardian contract in MUNIS. Invoices for Guardian life insurance premium expenditures should be processed against the related purchase order.</p>
b.	The City's agreement with legacy Springfield Water and Sewer employees could not be located by the HR department.	<p>Some employees of the Water and Sewer Commission were on the City's life insurance plan ostensibly due to a split between the City and the Water and Sewer Commission in 2006. The Commission remits a portion of the premiums to the City on a monthly basis for these legacy employees.</p> <p>We were unable to obtain a copy of an agreement describing this arrangement. Therefore, a formal listing of former City employees that this is applicable to is not available, and a consistent method for</p>	No monetary impact was calculated for this finding.	If an agreement is not ultimately located regarding life insurance coverage for legacy Water and Sewer employees, then we recommend that a new formal agreement be developed and signed by both the City and the Water and Sewer Commission to document the agreed arrangement.





Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		<p>identifying whether coverage and reimbursement is appropriate for former City employees, now Water and Sewer employees, is not performed. Without a formal written agreement or a formal listing of affected employees, the City has no way to know if the premiums being paid are correct or accurate. There is a risk that there are individuals that are inadvertently on the City's life insurance plan that should not be as well as the City erroneously paying matching rates for those individuals.</p>		
c.	<p>There were instances where Guardian members were unable to be located in MUNIS.</p>	<p>There were two Guardian members found with 28 instances where the member identification number per the Guardian Invoice could not be located by name or by social security number in MUNIS. One member was later identified as a Water and Sewer Commission employee; however, this does not impact the finding as that member's legacy employee records are not in MUNIS. Ineligible members included on the Guardian invoice not only result in an overpayment of premiums but also create the risk that ineligible claims potentially may have to be paid by the City.</p>	<p>If the members were not supposed to be on the invoices during this test period, the potential overpayment to Guardian by the City is \$1,011.78.</p> <p>The potential risk for inadvertent claims for these employees could range from \$27,000 - \$52,000 for each claim.</p>	<p>Guardian members that cannot be located in MUNIS should be researched and ultimately stricken from the City's plan.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
5.	There were numerous data discrepancies between Guardian invoices and the City's accounting system, MUNIS.			
a.	Some employee and retiree social security numbers in MUNIS were not an exact match of member identification numbers per the Guardian invoice.	During our test period, we found 17 employees with 152 instances where the member identification numbers per the Guardian invoice did not match the corresponding social security number in MUNIS. Additional discrepancies with social security numbers in MUNIS as compared to retirement data were noted for four retirees. Most discrepancies appear to be merely typographical errors. These errors adversely impede the ability to perform efficient and effective reconciliations.	No monetary impact was calculated for this finding.	We recommend that HR develop formal processes that include checklists and supervisory reviews to ensure data is entered correctly in MUNIS, Guardian, and with retirement agencies for new employees/members.  Data integrity issues such as typographical errors on social security numbers and names should be routinely monitored and corrected. We suggest that HR work collaboratively with the City's IT department to develop queries that can aid in catching potential social security number discrepancies.
b.	There were Guardian members that had a deceased code in MUNIS.	Six employees were found or 55 instances where premiums were charged by Guardian for members having a deceased code in MUNIS. Continuing to include deceased members on the Guardian invoice results in an unnecessary overpayment of premiums by the City.	The potential overpayment to Guardian by the City is \$385.94.	We suggest that HR develop a process for identifying employees/retirees that are deceased and for notifying Guardian of the same. The notifications to Guardian should be reviewed for accuracy and to ensure invoices are corrected.
c.	There were potential date of birth data entry issues or incomplete employee data.	At the end of our review period, we noted there were 13 Guardian members with Basic coverage that were over the age of 100. Although this in itself is not problematic, it could indicate potential data entry or coverage errors.	If the members should not have been on the Guardian invoices during this test period the potential overpayment to Guardian is \$1,226.68.	We recommend that HR develop formal processes that include checklists and supervisory reviews to ensure birth data is entered correctly in MUNIS, Guardian, and with retirement agencies for new employees/members.  We suggest that HR work collaboratively with the City's IT department to develop queries that can aid in catching potential date of birth discrepancies.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
d.	There were Guardian members classified as active employees (i.e. "Class 1") that had a retired status in MUNIS. The dates were missing from MUNIS records to confirm some of the members.	<p>We found 2,061 instances where active employees (i.e. "Class 1" Guardian members) are noted in MUNIS as retired [approximately 147 employees per month]. For Basic coverage, retiree premiums are higher than active employee premiums. Therefore, this misclassification results in a potential underpayment of premiums to Guardian from the City.</p> <p>Also, Voluntary AD&amp;D coverage is not applicable to retirees. Therefore, the AD&amp;D premiums paid by the City would not have been charged if those employees had been properly classified as retired.</p> <p>We found six employees with 84 instances where Class 1 active rates were invoiced by Guardian but the employees were noted as retired in MUNIS. There were no inactive, terminated or pension dates entered in MUNIS for these employees. Therefore, the designation of retired may or may not be accurate and should be researched to ensure the amounts paid to Guardian are correct.</p>	<p>Assuming all are retired, the potential underpayment to Guardian is \$6,480.44.</p> <p>Ten employees noted as retired in MUNIS have active payroll deductions and have potentially underpaid the COS \$72.93.</p> <p>For the employees having missing dates in MUNIS, assuming the employees are indeed retired, results in a potential underpayment by the COS to Guardian of \$292.32.</p>	<p>Formal consistent processes and clear use of dates in designated fields for retired employees are needed. These dates should be reviewed, updated, and monitored/tested for accuracy.</p> <p>We recommend that HR research and correct any current misclassifications and complete missing dates (pension dates, etc.).</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
e.	There were Guardian members classified as retirees (i.e. either "Class 2" or "Class 3") that had inconsistent or missing data in MUNIS to indicate the employees were actually retired.	<p>We found 26 employees and 336 instances where Class 2 or Class 3 Guardian members with Basic coverage did not have designations in MUNIS to indicate they were retired. These employees were coded as active, inactive or "benefit only" and did not have any dates or codes indicating that they were retired. Incomplete or inconsistent data impedes the City's ability to verify whether employees and retirees are contributing correct or incorrect amounts.</p> <p>We noted at least 17 retirement related codes within the MUNIS Employee Master tables. These codes were available as job classes and personnel, inactive or termination codes. The internal coding for retirees has varied throughout the years resulting in numerous codes, inconsistencies, and confusion when running queries within employee records.</p>	The potential overpayment to Guardian is \$1,169.28 assuming all are not retired.	<p>Formal consistent processes and a clear use of codes, dates, and job classes for retired, terminated or inactive employees are needed. These codes and dates should be reviewed, updated, and monitored for accuracy. Duplicative or redundant retirement codes should be consolidated into one or a few key codes as determined by HR.</p> <p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>
f.	Some active Guardian members were coded as terminated in MUNIS.	<p>We found 97 employees with 685 instances where active Basic and Supplemental employees (i.e. "Class 1" Guardian members) were noted in MUNIS as terminated [<i>approximately 49 employees per month</i>]. These employees did not have payroll deductions for life insurance.</p> <p>13 employees with 72 instances with active life insurance payroll deductions but the MUNIS records for those employees contained termination codes.</p>	<p>A potential overpayment to Guardian of \$13,042.69, assuming these active members were terminated and should not be on the invoices.</p> <p>There was no monetary impact for these 13</p>	<p>Formal consistent processes and clear use of codes and dates in designated fields for terminated employees are needed. These dates should be reviewed, updated, and monitored/tested for accuracy.</p> <p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		<p>Five Guardian retiree Basic members or 56 instances where the MUNIS records contained termination codes. These retirees did not have pension deductions for life insurance.</p> <p>One Guardian retiree Supplemental member with two instances with premium deductions, but the MUNIS records for that employee contained termination codes.</p> <p>Continuing to include terminated members on the Guardian invoice results in an unnecessary overpayment of premiums by the City, and ineligible claims potentially may have to be paid.</p>	<p>employees as no deductions were made to their payroll.</p> <p>A potential overpayment to Guardian of \$377.44 and \$118.08, assuming these retirees having Basic and Supplemental insurance, respectively, were terminated and should not be on the invoices.</p>	
g.	<p>Premium rates in open enrollment documentation and set up in MUNIS did not exactly match those of Guardian; incorrect date used by HR for moving members into different premium brackets.</p>	<p>The new Insurance Director was able to locate renewal information from Guardian for the City's life insurance group plan. We noticed that the rates did not exactly match the rates on open enrollment documents or in MUNIS setup tables. The example calculation on open enrollment documents was also erroneous.</p> <p>Premiums increase on the plan's anniversary date of October 1st and as a result of employees and retirees reaching certain milestone ages. The HR department erroneously moved employees to the higher rates based upon date of birth rather than by the plan's anniversary date of October 1st. HR correctly advised employees/retirees of</p>	<p>Although these incorrect settings created numerous incorrectly calculated deductions, no total monetary impact was calculated for this finding. Many of the errors offset each other during our testing period.</p>	<p>The current Insurance Director discovered numerous setup errors and methodically went through each table to ensure consistency between MUNIS setup tables and current Guardian rates. We recommend that this process be documented, continued, reviewed, and deductions tested for each future renewal term with Guardian.</p> <p>The OIA located MUNIS guidance regarding functionality for the October 1<sup>st</sup> calculation for milestone age brackets rather than by date of birth that was communicated to HR. We recommend that HR utilize this functionality as well as testing and monitoring its accuracy for each future renewal year.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		<p>the October date in open enrollment materials; however, the calculation was not performed correctly in MUNIS.</p> <p>Incorrect setup data impedes the City's ability to properly calculate and assess accurate amounts that employees and retirees are contributing.</p>		
h.	<p>There were employees with active deduction setup records in MUNIS, but those employees did not have any payroll deductions for life insurance during the analysis period and were also not on the Guardian invoice.</p>	<p>We found 62 employees or 328 instances where the employee deduction records were setup to have an active deduction, but there was not a subsequent payroll deduction. This may be correct as these employees were also not on the Guardian invoice. However, the setup is incorrect and needs to be researched, tested, and corrected. Incorrect setup commands and failure to monitor or test them can lead to numerous inaccurate payroll deductions.</p>	<p>No monetary impact was calculated for this finding.</p>	<p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>
i.	<p>Some employee Supplemental insurance coverage amounts in MUNIS were not equal to the coverage amounts per Guardian.</p>	<p>The insurance coverage amounts in MUNIS are one of the parts that drive the payroll deduction calculation for the employee's premium. Some of the coverage amounts in MUNIS differed from the coverage amounts per Guardian creating a discrepancy for 16 employees with 171 instances. These errors create incorrect premiums withheld and/or an erroneous lack of coverage.</p>	<p>Subtracting actual payroll deductions from Guardian premiums yielded potential underpayments to Guardian of \$2,963.43 and potential overpayments to</p>	<p>Differing volume amounts recorded in MUNIS and with Guardian should be researched and harmonized with corresponding corrections to employee premiums withheld.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		<p>For example, one employee having life insurance coverage noted in MUNIS as \$10,000 had a monthly payroll deduction of \$5.20. Guardian listed this employee’s coverage as \$100,000, and the monthly premium billed and paid by the City was \$52.00. It is unclear which system had the data entry error without further research by the HR department.</p>	<p>Guardian of \$2,998.54.</p>	
j.	<p>Some employees/retirees had payroll/pension deductions for life insurance during the analysis period but were not on the Guardian invoices as members.</p>	<p>We found 22 employees with 114 instances where active Basic life insurance premiums were deducted from payroll; however, those employees were not listed as members on the Guardian invoices.</p> <p>13 Active Supplemental employees with 77 instances where premiums were withheld from payroll, but the employees were not on the invoices.</p> <p>93 retirees with 1,073 instances where Basic premiums were withheld from pensions, but the retirees were not on the Guardian invoices.</p> <p>24 retirees with 191 instances where Supplemental premiums were withheld from pensions, but the retirees were not on the Guardian invoices.</p> <p>This type of inconsistency creates a potential underpayment to Guardian and the risk that claims may have to be paid by the City rather than Guardian.</p>	<p>A potential underpayment of \$371.64 to Guardian, assuming all active Basic instances should be on the invoices.</p> <p>For active Supplemental, a potential underpayment to Guardian of \$4,021.00.</p> <p>For retiree Basic, a potential underpayment to Guardian of \$7,232.02.</p> <p>For retiree Supplemental, a potential</p>	<p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
			underpayment to Guardian of \$6,202.38.	
6.	Several employees and retirees had incorrect coverages or lapses in coverage.			
a.	Supplemental coverage for Guardian members was not administered correctly by HR for retirees over the age of 75.	<p>Supplemental insurance is discontinued at age 75 for Class 2 and Class 3 retirees. However, there were retirees with Supplemental coverage or paying for Supplemental coverage that were over 75 years of age. This issue was identified by the new Insurance Director, and the OIA also tested data records to corroborate the issue.</p> <p>We found 31 retirees with 102 instances of appearing on the Guardian invoices with Supplemental coverage, although the members were over the age of 75.</p> <p>There were also nine retirees with 49 instances where Supplemental retirees' premiums were withheld from their pensions, but the retirees were not on the Guardian invoices.</p> <p>Ineligible members included on the Guardian invoice and those that are not on the invoice but are still paying premiums create a heightened risk that ineligible claims potentially may have to be paid by the City.</p>	<p>Assuming the active Supplemental members should not be on the invoices, the potential overpayment to Guardian by the City is \$6,056.46.</p> <p>The potential overpayment to the City by retirees for retiree Supplemental members is \$1,769.66.</p> <p>The potential risk for inadvertent claims for these retirees could range from \$3,000 - \$74,000 for each claim.</p>	<p>We suggest that HR work collaboratively with the City's IT department to develop queries that can aid in identifying and projecting which retirees are reaching this milestone age.</p> <p>A process for timely notifications to the retiree and to Guardian should be developed and the process reviewed for accuracy.</p>
b.	There is one employee that had Supplemental	We noted that all employees that elected Supplemental coverage also obtained Basic coverage. There was one instance found where an employee had the opposite:	The total potential underpayment to Guardian by both the employee and	This employee is no longer employed with the City. We recommend that HR develop a procedure to routinely monitor future records to identify this same type of inconsistency.





Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
	insurance coverage but not Basic coverage.	Supplemental coverage but no Basic coverage. We assume this may have been a data entry error upon enrollment resulting in a small underpayment. This type of inconsistency creates the risk that claims may have to be paid by the City rather than Guardian.	the COS is \$19.56 for a total underpayment to Guardian of \$39.12.  The potential risk for an inadvertent Basic claim for this employee could be \$2,000.00.	
c.	Some Guardian members' Voluntary term life coverage amounts did not equal the Voluntary AD&D coverage amounts.	We noted that the amount of insurance coverage is typically the same for both the life insurance component and also for the AD&D component. However, we found eight employees or 100 instances where these two coverage amounts did not equal. These errors created incorrect premiums withheld and/or an erroneous lack of coverage.  For example, in one instance Guardian lists an employee's term life coverage as \$200,000; however, the AD&D coverage is zero and was, therefore, not included in the premium invoice. This results in a potential monthly underpayment by the City for this employee of \$10.00.	This is a Guardian error that may have resulted in a potential underpayment to Guardian of \$405.00.  These employees are potentially not covered for AD&D claims at \$2,000 each.	We recommend that HR research and correct any current inconsistent or missing data.  Future records should be routinely monitored and corrected with potential collaboration with the IT department.
d.	Some retiree premiums were calculated incorrectly by Guardian.	We found 69 instances where the retiree portion was invoiced incorrectly by Guardian at \$3.35 each versus \$3.37. We suspect these are Guardian errors where AD&D was not being charged. These types of errors	The underpayment to Guardian is immaterial; however, this coverage error	We recommend that HR research and correct any current inconsistent or missing data.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		create an erroneous lack of AD&D coverage for some retirees and the risk that claims may have to be paid by the City rather than Guardian.	creates the risk that there could be potential AD&D claims for \$2,000 each to the City.	Future records should be routinely monitored and corrected with potential collaboration with the IT department.
7.	Some Guardian calculated premium amounts appear to have been calculated incorrectly.	<p>There were nine employees with 48 instances where premium amounts for Guardian members with Basic coverage did not match COS posted rates. Some of the instances appeared to have been as a result of Guardian not properly assessing AD&amp;D premiums.</p> <p>We noted five employees in August 2018 with Supplemental coverage but where Guardian premium amounts did not match amounts as calculated by the OIA.</p> <p>Data entry errors can unintentionally create employee overpayments, underpayments or coverage errors.</p>	<p>For active Basic variances found, the potential overpayment to Guardian is \$302.33.</p> <p>The potential overpayment to Guardian for Supplemental errors is \$62.74.</p>	<p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>
8.	Retirees were slightly overcharged for Basic Life Insurance.	The retiree Basic life insurance rate per COS open enrollment posted rates was \$3.40. This is the amount that was collected from retirees. The actual retiree portion of Guardian Basic life insurance was \$3.35 per \$1,000 of coverage plus an AD&D rate of \$.02 per \$1,000 of coverage for a total monthly premium of \$3.37. We found 28,438 instances where retirees paid \$3.40 instead of \$3.37. These errors created small	This equates to retirees being overcharged by \$855.21.	<p>We recommend that HR work collaboratively with City Retirement and MTRS offices to correct the amounts withheld by ensuring they match current Guardian rates.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
		erroneous overpayments to the City by retirees.		
9.	Several employees and retirees had incorrect payroll/pension deductions for life insurance premiums or no deductions at all.			
a.	Some Guardian members did not have payroll/pension deductions for life insurance premiums.	<p>These tests did not include previous findings for deceased, terminated, or misclassified retirees. We found 935 employees or 2,442 instances where employees were included on the Guardian invoice with active Basic coverage; however, premiums were not withheld from their payroll checks.</p> <p>463 active Supplemental members with 1,112 instances where employees were included on the invoices; however, premiums were not withheld from payroll.</p> <p>310 Basic retiree members or 2,333 instances where retirees were included on the invoices; however, premiums were not withheld from their pensions.</p> <p>37 Supplemental retirees with 191 instances where retirees were included on the invoices; however, premiums were not withheld from their pensions.</p> <p>Ineligible members included on the Guardian invoice not only result in an overpayment of premiums but also create the risk that ineligible claims potentially may have to be paid by the City.</p>	<p>If the active Basic employees should not have been included on the invoices, the potential overpayment is \$7,960.92.</p> <p>For Active Supplemental a potential overpayment to Guardian of \$35,852.89.</p> <p>For Retiree Basic a potential overpayment to Guardian \$15,724.42.</p> <p>For Retiree Supplemental a potential overpayment to Guardian \$9,384.36.</p>	<p>We recommend that HR research and correct any current inconsistent or missing data.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
b.	The City had not been collecting AD&D premiums for Active employees with Supplemental coverage.	<p>The Supplemental Guardian premiums have two components: Supplemental coverage and AD&amp;D coverage. The current Insurance Director correctly identified this as an issue; and the OIA tested it as well. During our testing period, we found 508 active employees or 5,516 instances where the Supplemental premium was collected, but the AD&amp;D premium was not collected.</p> <p>The failure to monitor or test the accuracy of premiums withheld can lead to numerous erroneous underpayments or overpayments to the City by employees.</p>	A potential underpayment to the COS by employees of \$24,423.94.	<p>We recommend that HR research and correct these current erroneous payroll deductions.</p> <p>Future records should be routinely monitored and corrected with potential collaboration with the IT department.</p>
10.	There are Water and Sewer reimbursements to the City that were not paid at current Guardian rates.	Some employees of the Water and Sewer Commission are currently on the City's life insurance plan ostensibly due to a split between the City and the Water and Sewer Commission in 2006. The Commission currently remits a portion of the premiums to the City on a monthly basis for these legacy employees. However, the reimbursement rates appear to be older rates and do not match current Guardian rates.	During our analysis period, Guardian billed the City approximately \$6,214.88. The Commission reimbursed the City \$2,747.45 for a potential underpayment of \$3,467.43.	We recommend that HR develop a consistent process for coding the affected employees in MUNIS as well as determining the authenticity of the members, i.e., whether they are still employed at the Water and Sewer Commission and verifying employee personal information and coverage with Guardian. Premium amounts and reimbursements should be updated and reconciled to ensure accuracy. Any anomalies such as unusual amounts or missing remittances should be timely investigated.
11.	The administration and recording of employee and retiree information in the various databases need improvement.			
a.	HR is currently creating duplicate employee records for some employees and	A typical best practice is to create one unique employee number/record in an accounting system. We were advised that the current HR process is to create a second record for retirees with an employee number that is in the range of 700000-999999. We found 195	No monetary impact calculated for this finding.	We recommend that the HR department develop a process for correcting existing duplicate employee master records and entering future records that ensures each is unique, accurate, and consistent.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
	also for retirees in the City's accounting system.	<p>employees with a second record that are not in that range. Some employees also inadvertently have three master records. The root cause of this issue that differing methods have been used throughout the years by numerous employees and throughout differing accounting system versions/available functionality.</p> <p>These inconsistencies in numbering conventions and the creation of multiple employee master records adversely affect the ability to quickly and accurately query data, calculate projections, and also create the risk that an employee could erroneously be paid more than once in a pay period.</p>		<p>The HR department should consider contracting with Tyler Technologies to obtain a short term onsite MUNIS consultant that is proficient in the Human Resources/Payroll module to:</p> <ul style="list-style-type: none"> <li>• observe current processes, how MUNIS is currently used in the HR department, and advise the department as to best practices</li> <li>• identify where MUNIS functionality can be optimized or where the addition of more data fields may be needed</li> <li>• discuss options for filtering enrollee records, tracking adjustment requests, creating custom reports, tracking/projecting retiree participation</li> <li>• identify additional modules, upgrades, or training that may be needed to achieve recommendations.</li> </ul>
b.	There are numerous name discrepancies between various sources of employee and retiree data; naming conventions are not streamlined or reviewed for accuracy.	<p>As an example please note the inconsistent variations, we observed for a particular employee: Correct name: SMITH, JANE AMY Guardian: SMITH, J AMY MTRS: SMITH, JANE A. MUNIS: SMITH, J. AMY A</p> <p>This is a data integrity obstacle that could impede the City's ability to perform accurate technology assisted reconciliations.</p>	No monetary impact was calculated for this finding.	<p>The HR department should establish a naming convention to be utilized across data sets and correct current inconsistencies. Consistent, complete, and organized data will aid in developing a robust reconciliation process. Harmonized information is needed between MUNIS, Guardian, Springfield Retirement, MTRS, and Water and Sewer data.</p> <p>A process should also be developed for secondary reviews of key tasks and of data entered to mitigate discrepancies and to ensure data integrity.</p>
c.	Dependent and spousal records in MUNIS were observed to be inconsistent,	There were numerous data integrity errors such as dependents entered as spouses, duplicate records with conflicting dates of birth, and records with the improper use of lower case data. Some employees now	No monetary impact was calculated for this finding.	HR should develop a process for ensuring the integrity of dependent and spousal data. Data discrepancies that are identified should be addressed.



Finding Number	Finding	Finding Description	Potential Monetary Impact	Recommendations
	duplicative, and missing.	inadvertently have three spousal records. These errors adversely impede the ability to perform efficient and effective reconciliations. We also noted that none of the records contained Supplemental spouse life insurance deduction codes. The lack of Supplemental life insurance deduction codes indicates that the full functionality of this module is potentially not being fully utilized.		The functionality of currently unused fields within the module should be discussed with the MUNIS consultant (see recommendation in Finding 11a) to determine if this data could be aid in the reconciliation process.
12.	There are users other than the Insurance Director and her staff that have access to modifying life insurance employee deduction setup records.	<p>Users other than key HR benefit employees responsible for the administration of life insurance deduction setup records can make changes to those records. These users are currently on the “honor system” that they will not actually make any changes.</p> <p>In total we found 57 employees with permissions enabled to be able to update or delete life insurance deduction records in MUNIS. These changes can be made without the approval of the Insurance Director and circumvents internal review and approval processes.</p>	No monetary impact was calculated for this finding.	<p>The OIA has identified the roles and users that currently have the ability to update or delete life insurance deduction records. HR should work collaboratively with the City’s IT department and with the School department to determine which users should have this permission, and IT should change the role access records accordingly.</p> <p>HR should work collaboratively with IT to periodically monitor these granted permissions to ensure unauthorized users have not inadvertently been given access.</p>

### Management’s Response

The following is management’s response to address the findings identified during the audit.

# City of Springfield

## Benefits Department

36 Court St., Room 18  
Springfield, MA 01103



**To: Office of Internal Audit**  
**From: Jennifer Whisher, Insurance Director**  
**Date: March 7, 2019**  
**Re: Life Insurance Benefit Audit, Management Response**  
**Cc: TJ Plante, CAFO**

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This memo is in response to the Life Insurance Benefit Audit recently completed by the Office of Internal Audit (OIA) in January 2019. The following corrective measures have been, or will be, implemented as a direct result of OIA's audit findings. Details are as follows:

- Reconciliation Process – Active employees are currently reconciled (Munis v. Guardian Bill) on a monthly basis. Missed deductions and enrollment errors are caught within two weeks of the beginning of the month. Corrections are made via payroll the following deduction/month. A procedure for retiree reconciliation is currently in the development stage as there are two different retirement organizations (City of Springfield Retirement System and Massachusetts Teachers Retirement System "MTRS"). Springfield Water & Sewer Commission employee deductions are reconciled every month based on Guardian enrollment and deduction information sent via check to the City of Springfield.
- Standard Operating Procedures (SOP) – Written SOPs have been brought up to date to reflect the current process in Munis v. 11.3.16 and the Benefits staff has been trained to setup and end deductions in Munis. Processes for enrollment setup, enrollment changes, and terminations in Guardian have been created but written processes are currently in progress.
- Vital Documents – At this time, the Department is still working to obtain original copies of contracts, enrollment records, and other agreements such as the Springfield Water & Sewer Commission (WSC) legacy agreement. The Department also plans to obtain a new replacement agreement with Guardian Life Insurance prior to the three year rate renewal date on October 1, 2019.
- Data discrepancies - Updated Munis to calculate the correct premium based on class, age, and elected volume for active and retired employees. Researched and corrected employee social security numbers, names, birthdates, and dependent information in both Munis and Guardian to ensure accurate enrollment and premiums.
- Incorrect/lapse in coverage – Coverage has been verified and corrected for all active City and WSC employees. Enrollment verification for retirees is ongoing.
- Retiree Basic Life Insurance – All retirees' basic life insurance premiums were corrected on the October 2018 pension disbursements.
- Active Employee Supplemental Life Insurance – All active employees were notified via mail of supplemental life insurance rate increases effective October 1, 2019. The information in this letter included information regarding rate tables, important birth dates, beneficiary information, and the option to cancel or reduce supplemental coverage due to the increase in rates.