



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

FINAL REPORT

**Audit of Metro General Government
Employee Benefits**

Date Issued: September 23, 2009

Office Location and Phone Number

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The Metropolitan Office of Internal Audit is an independent audit agency reporting directly to the Metropolitan Nashville Audit Committee

EXECUTIVE SUMMARY

September 23, 2009

Results in Brief	Recommendations
<p>We performed an audit of the processes and controls in place pertaining to employee benefits. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none"> • Are controls in place for adherence to Metro Code and policies regarding Injury on Duty (IOD) Pay, and Medical/IOD disability compliance? <p>Yes. However two disability adjustments were not properly reflected in Metro's accounting system which led to overpayments.</p> <ul style="list-style-type: none"> • Are controls in place to ensure that payments made to insurance carriers are only for eligible participants as established by Metro guidelines? <p>Yes. No material weaknesses were noted. However, current Board policy requires new hires to sign an affidavit certifying that information regarding individuals listed as dependents is true and correct, currently controls are not in place to test adherence to the affidavit.</p> <ul style="list-style-type: none"> • Are payroll deductions for benefits deducted properly as compared with current rate schedules and employee election forms? <p>Yes. No material weaknesses were noted.</p> <ul style="list-style-type: none"> • Are controls in place to stop payments for pensioner benefits and payroll checks in a timely manner due to pensioner death? <p>Generally No. Our office noted two pensioners that were deceased as of January 2008 still receiving payroll checks as of May 2009.</p>	<p>Key recommendations of this report include:</p> <ul style="list-style-type: none"> • The Employee Benefit Board should consider conducting a dependent eligibility audit to test adherence to the affidavit new hires must sign. • Metro HR should ensure pensioner deaths are recognized in a timely manner by utilizing a death check verification service for Metro's pensioner population. • Metro HR should establish some form of management review to ensure disability pension adjustments are reviewed, approved, and entered into the accounting system properly. • Appropriate action should be taken by the Board in considering a trust fund balance policy for the Medical Trust Fund. <p>Management's response can be seen in Appendix A, page 15.</p>

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INTRODUCTION

BACKGROUND

As part of the annual Audit Work Plan, the Office of Internal Audit conducted an audit of employee benefits offered to general government, and public safety employees. General government employees also include the support staff for Metropolitan Nashville Public Schools. The basis for conducting this audit was due to the high dollar amount spent overall on employee benefits, approximately \$286.3 million for fiscal year 2008, and the inherent complexities in administering benefits for employees, pensioners, and their eligible dependents which is a population base in excess of 37,000 individuals.

This audit considered the array of employee benefits as outlined in the Metropolitan Government of Nashville and Davidson County (Metro) Employee Handbook (see Exhibit A below.) Governance and oversight for these employee benefits is vested primarily with the Metropolitan Employee Benefit Board (Board). However, the Civil Service Commission also has governance and oversight responsibility for work and life employee benefits. Both of these entities rely on the Human Resources Department staff to assist them with their responsibilities related to implementation and administration for employee benefits.

Exhibit A Benefit Offerings and Total Costs for FY 2008

Type	Benefit Description	Total Cost	Reviewed in Audit
Health	Medical*	\$159,702,951	✓
	Dental*	9,469,854	✓
	Mental Health/ Substance abuse		
	Optional Vision*		
Income Protection	Sick Leave		
	Basic Life Insurance*	1,629,633	
	Accidental Death & Dismemberment	100,000	
	Disability Pension ¹		✓
	Optional Supplemental Life insurance		
	Optional dependant Life insurance		
	Optional short-term disability insurance		
	Optional long-term disability insurance		
	Flexible Spending Accounts		
Retirement	Service Pension Plan	102,232,089	✓
	457 Plan Deferred Compensation		
Work/Life	Vacation/holidays		
	Employee Assistance Program	98,175	
	Back-up Daycare	94,500	
Total		\$286,301,236	

¹Disability pension payments are included in the service pension plan amount.

*Indicates benefit is also offered to pensioners.

BENEFITS OFFERED TO ACTIVE EMPLOYEES

Health Insurance

Currently there are two options available for health insurance coverage, BlueCross Preferred Provider Organization (PPO) and Cigna Choice Fund. Cigna Choice Fund is a new option that replaced the former Health Maintenance Organization (HMO) options starting in January 2008. Both health plans are self insured. Metro pays 75% of the premiums and the employee pays the remaining 25%.

Dental Insurance

There are two options available, Delta Dental Limited PPO and Delta Dental Premier, although both plans are through Delta Dental, they offer different levels of benefits. Metro pays 100% of the premium for individual coverage while employees pay the difference if they sign up for family coverage.

Life Insurance

Metro provides active employees up to age 65 with \$50,000 term life insurance upon death. Active employees over age 65 are provided with \$32,500 term life insurance. The cost of this benefit is paid entirely by Metro.

Employee Assistance Program

Metro's Employee Assistance Program (EAP) is a confidential source of information and resources to support employees and members of their household in resolving personal matters. All assistance is free and confidential and is strictly between an employee and their counselor. Metro's current contract which ends September 30, 2010, provides unlimited sessions with a counselor.

Today Care Daycare

Metro provides employees with the option of using a back-up and mildly ill daycare center at reduced rates. Employees pay a \$10 co-pay per visit to utilize this benefit. The number of days an employee may use the daycare for mildly ill children is unlimited. However, for well child care, the limit is 30 days per year with a maximum of ten days in a row.

In-Line-of-Duty Death Benefit

If an employee is injured in-the-line-of-duty and loses their life, the employee may be eligible for a death benefit of \$100,000. To be eligible for this benefit, death must be a direct result of an act occurring or a thing done or a risk taken which was required of the employee in the performance of the employee's duties.

Medical Treatment for In-Line-of-Duty (IOD) Injuries

If an employee is injured in-the-line-of-duty they are entitled to "emergency" medical treatment at the nearest available doctor's office, clinic or hospital paid for by Metro. All further follow-up treatment will be provided at no expense to the employee through a network of providers with Metro's injury-on-duty's administrator, Alternative Service Concepts. Injured employees also have the option of using their personal physician through their Metro insurance coverage while being reimbursed for any out-of-pocket copays, deductibles or coinsurance.

Disability Pension Benefit

Under Metro's disability plan, there are two types of disability benefits;

1. In-Line-of-Duty disability benefit that will cover an employee for injuries that occur during the course of employment. Metro is not covered by Worker's Compensation Insurance, but is self-insured with a substantially equal program.
2. Medical disability benefit. To qualify for this benefit, employees must have worked with Metro for at least ten years.

The benefits paid to those on disability pension is either 50% or 60% (depending on which plan an employee falls under) of their last twelve months of earnings prior to going out on disability. There is also an additional 10% benefit if the employee has at least one qualifying dependent child. All employees hired after July 1, 1996 are covered under Division B the plan that provides 50% benefits and only 236 disability pensioners remain in Division A the plan that pays 60%.

Service Pension Benefit

Employees are eligible to receive service pension benefits once they have reached the vesting period of five years. Contributions towards employee retirement are completely paid by Metro. The amount of service pension an employee receives depends on both earnings and length of service and whether or not the employee chooses to leave an optional benefit to their spouse. An employee is eligible for a normal service retirement based on their years of service and age. There are different age requirements for public safety employees and general government employees.

Vision Insurance

Vision insurance benefits are offered where an employee can choose either a basic plan or an enhanced plan. The cost of vision insurance is paid entirely by the employee.

Long Term Care

Long-term Care insurance provides nursing home care, assisted living care and at-home care once there is cognitive impairment or you cannot perform certain activities of daily living. The cost of this benefit is paid entirely by the employee.

Deferred Compensation 457 Plan

This program, governed by the Internal Revenue Service, allows employees to put a portion of their earnings into a tax deferred account to be used for future retirement needs.

Flexible Benefit Program

Flexible Spending Accounts allow employees to set aside tax-free dollars to pay for a wide variety of health care and dependent care expenses.

Supplemental Life Insurance

Employees may sign up for additional supplemental life insurance in increments of \$10,000 up to a maximum of \$200,000 when first eligible. Employees have an opportunity to increase up to \$500,000 during annual

enrollment with Evidence of Insurability. The cost of supplemental insurance is paid entirely by the employee.

ADDITIONAL BENEFITS OFFERED TO ACTIVE EMPLOYEES

Vacation and Sick Time

Metro offers vacation and sick time to eligible employees. Vacation time is earned at a rate determined by length of service. The beginning rate is ten days per year for employees with less than five years of service. Sick days are earned at a rate of one day per month.

Holidays

Metro offers ten paid holidays each year.

Short-Term Disability Insurance

Short-term disability insurance replaces a portion of an employee's Metro pay for up to 173 days (180 consecutive days less the seven day waiting period) if you become disabled by an injury, illness, or medical condition, including pregnancy and mental illness. The cost of this benefit is based on employee salary and is paid entirely by the employee.

Long-Term Disability Insurance

Long-term disability insurance provides a portion of an employee's pay should they become disabled by an injury, illness, or medical condition and cannot work. The cost of this benefit is based on employee salary and is paid by the employee.

BENEFITS OFFERED TO PENSIONERS

Pensioners have the option of continuing their enrollment in health, dental, and vision benefits. However, pensioners who elect to opt out at the time of retirement or after may *not* re-enroll at a future date.

Metro also requires pensioners and their covered dependents, to take Medicare Part A and Part B as soon as it is first offered by the Social Security Administration. If a pensioner or their dependent does not enroll in Medicare when first eligible, the medical claims may be coordinated as if the pensioner does have Medicare and they could be responsible for a substantial portion of the claim.

Health Insurance

Currently there are three options available for health insurance coverage, BlueCross Preferred Provider Organization (PPO), Blue Advantage Plus, and Cigna Choice Fund (which is not funded for pensioners who have Medicare A and B). Cigna Choice Fund is a new option that replaced the Health Maintenance Organization options starting in January 2008. The Blue Cross PPO and Cigna Choice Fund are self-insured.

The Blue Advantage Plus plan is offered by BlueCross/BlueShield of Tennessee and is a Medicare Advantage Private Fee-For-Service organization. This is not a Medicare Supplement plan. Blue Advantage Plus

is only available to pensioners and their covered dependents that have Medicare Part A and Part B coverage. Metro pays 75% of the premiums and the pensioner pays the remaining 25%.

Dental Insurance

Currently there are two options available, Delta Dental Limited PPO and Delta Dental Premier, although both plans are through Delta Dental, they offer different levels of benefits. Metro pays 100% of the premium for individual coverage while pensioners pay the difference if they sign up for family coverage.

Life Insurance

Metro provides pensioners with \$10,000 term life insurance upon death. The cost of this benefit is paid entirely by Metro.

Vision Insurance

Vision insurance benefits are offered and a pensioner can choose either a basic plan or an enhanced plan. The cost of vision insurance is paid entirely by the pensioner.

Long Term Care

Long-term Care insurance provides nursing home care, assisted living care and at-home care once there is cognitive impairment or you cannot perform certain activities of daily living. The cost of this benefit is paid entirely by the pensioner.

SOURCES OF FUNDING

Contributions towards the cost of providing benefits can be shared by the employee/pensioner and Metro, paid entirely by Metro, or paid entirely by the employee/pensioner. All contributions are collected and accounted for through payroll deductions. Metro currently bears the full cost of providing basic life insurance, contributing to the pension fund and providing injured on duty benefits and disability pensions. Metro's costs for providing these benefits are budgeted in each department's operating budget based on full time equivalents. Other benefits such as vision, short-term disability, long-term disability, long-term care and supplemental life insurance are paid entirely by the employee/pensioner.

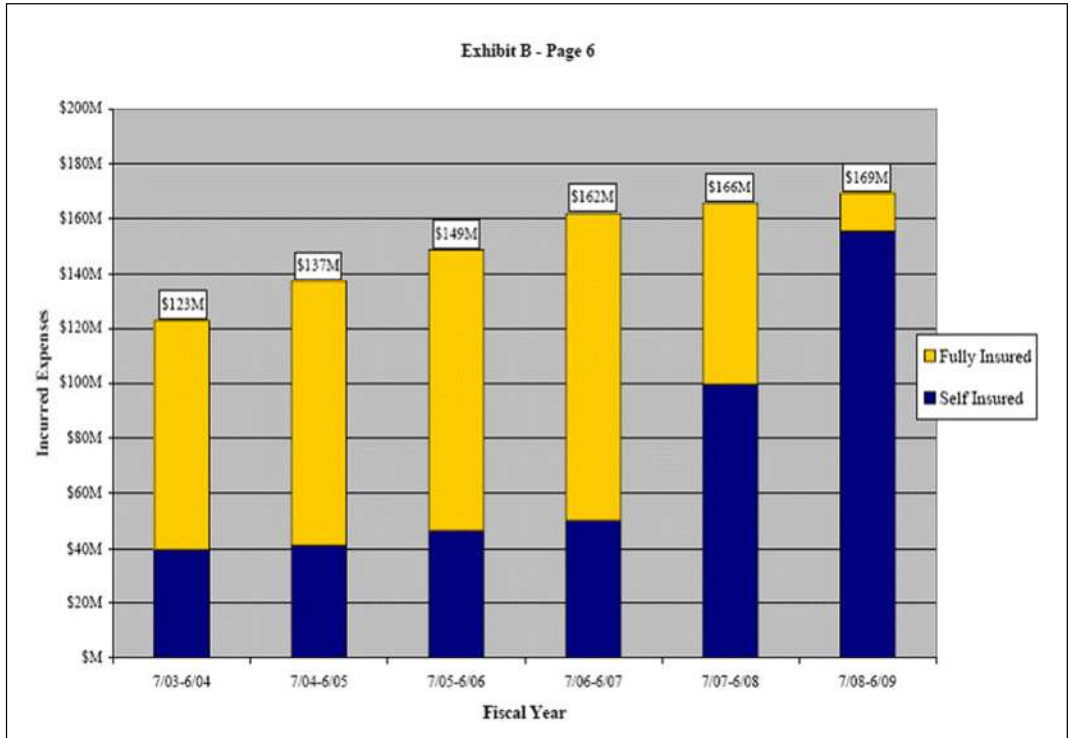
Benefit costs currently shared between Metro and the employee are medical and dental benefits. Metro's portion of providing medical and dental benefits is budgeted in each department's yearly operating budget as a fringe benefit expense based on full time equivalents. Metro's contribution to the cost of providing medical and dental benefits to pensioners is budgeted under the Administrative Department.

FINANCIAL INFORMATION

Exhibit B below illustrates total incurred medical costs for the general government, public safety, and pensioners for fiscal years ended June 30, 2004-2009. (Includes the self-insured medical plans, the former HMO plans,

the dental plan, and the Blue Advantage Plus plan offered only to pensioners).

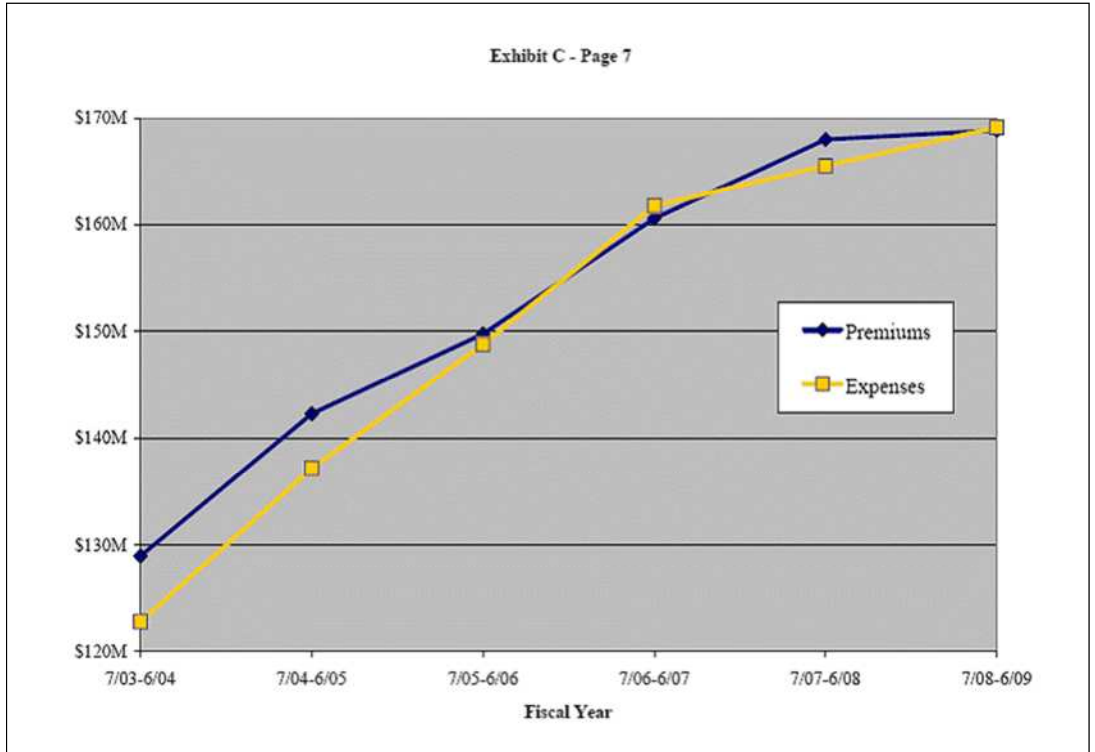
Exhibit B – General Government & Public Safety Medical Costs FY 2004 through FY 2009



Source: Bryan, Pendleton, Swats & McAllister LLC, illustrates incurred medical costs.

Exhibit C illustrates the relationship between total premiums and expenses for all medical and dental plans as of fiscal years ended June 30, 2004-2009.

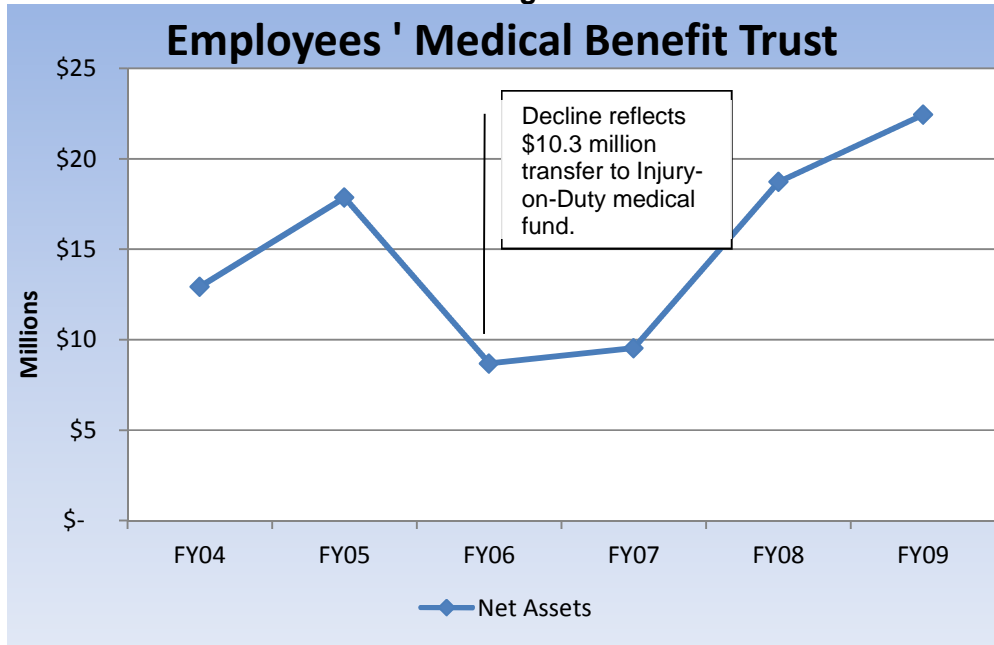
Exhibit C – Premiums and Expenses FY 2004 through FY 2009



Source: Bryan, Pendleton, Swats & McAllister LLC

Exhibit D below illustrates net assets for the Employees' Medical Benefit Trust (which includes *only* the self-insured medical plan(s)) for fiscal years ended June 30, 2004-2009.

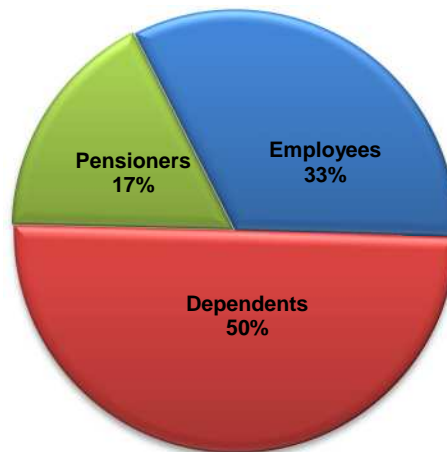
Exhibit D – Net Assets FY 2004 through FY 2009



Note: Amount for FY 09 is unaudited.

Exhibit E below illustrates a breakdown of the 37,304 individuals covered by the medical plans for Metro General Government.

Exhibit E – Metro Self-insured Medical Plan Participants as of May 2009



Source: Compiled by the Office of Internal Audit from medical plan(s) carrier feed reports provided by Metro HR.

OBJECTIVES AND CONCLUSIONS

1. *Are controls in place for adherence to Metro Code and policies regarding Injury on Duty (IOD) Pay, and Medical/IOD disability compliance?*

Yes. Our office determined that the 2008 annual disability questionnaires were reviewed and verified for accuracy by the Department of Human Resources Benefits Compliance Section. However, our test did identify two individuals whose disability pensions were incorrectly calculated due to administrative errors (See Observation D, page 12.)

2. *Are controls in place to ensure that payments made to insurance carriers are only for eligible participants as established by Metro guidelines?*

Yes. However, current Board policy requires new hires to sign an affidavit certifying that information regarding individuals listed as dependents is true and correct, currently controls are not in place to test adherence to the affidavit (See Observation B, page 10.)

3. *Are payroll deductions for benefits being deducted properly as compared with current rate schedules and employee election forms?*

Yes. No material weaknesses were noted. Our office sampled a total of 144 employees from the two medical plans and the dental plan, to determine if each employee was enrolled in the appropriate plan as indicated on the employee's benefit election form. Additionally, employee payroll deductions were then compared with the current rate schedules for the medical and dental plans and verified for accuracy.

4. *Are controls in place to stop payments for pensioner benefits and payroll checks in a timely manner due to pensioner death?*

Generally no. Prior to 2008, Metro Human Resources would submit the pensioner population statistics to a company for death verification matches. In an effort to reduce costs, this service was discontinued in 2007. However our test work identified two individuals who were deceased as of January 2008, but were still receiving pension payments as of May 2009 (See Observation C, page 11.)

OBSERVATIONS AND RECOMMENDATIONS

A- Establish a Minimum Reserve Policy for the Employees' Medical Benefit Fund

The Employees' Medical Benefit Fund is used to account for monies collected from Metro departments, employees, and pensioners to be used for the payment of self-insured medical claims. Although the fund currently has a positive unreserved fund balance, it does not have a formal fund balance reserve. The Board should adopt a formal reserve policy for the Medical Benefit Fund so that unforeseen increases in medical claims and or costs of services can be protected.

Upon reviewing the January 6, 2009 Board meeting minutes, the topic of a fund balance policy was submitted by Metro Human Resources staff for the Board's consideration and appropriate action. The Board motioned to defer the issue for one month however as of July 2009, the issue is still on deferment.

Criteria:

Metropolitan Code 3.16.010 (B) Contributions Generally; "In the case of self-insured medical care benefits or services provided by a health maintenance organization, the financial requirements as to the amount of monthly employee or pensioner contributions and contributions by the metropolitan government shall be determined by the board with the advice of the board's consulting actuary and other consultants, including the contributions estimated to be required in each fiscal year or portion of each fiscal year to meet the expected cost of benefits together with the maintenance of an adequate reserve in the insurance account to cover fluctuations in the amount of benefits or cost of services from month to month and any anticipated increase in the cost of medical care benefits or services in each fiscal year or portion of each fiscal year."

Risk:

A minimum reserve balance policy should be adopted by the Benefit Board to ensure funds are adequate in the Employees Medical Benefit fund to protect against and cover unforeseen increases in insurance claims and medical costs.

Recommendation:

Appropriate action should be taken by the Board in considering a trust fund balance policy for the Medical Trust Fund.

B – An Audit of Dependants Should be Conducted

Additional diligence is needed to ensure that employee dependant's reported in Metro's accounting system are eligible for benefits. Currently, Board policy requires proof of dependent eligibility when an employee experiences a life changing event, such as the birth of a child. In order to add the dependent to their insurance plan the employee must present a birth certificate. However, the Board revised the health plan eligibility criteria policies back in 2001, by

implementing a previous audit recommendation. The current policy requires new hires to sign an affidavit certifying that the information they are providing is true and correct as well as acknowledging that there would be penalties for perjury or misstatements of facts, rather than submitting supporting documents such as birth certificates and or marriage licenses. Also, Metro currently utilizes the honor system in which employees are expected to report any changes in dependent eligibility status during the course of employment.

Because Metro has opted for self-insured health plans, Metro is responsible for paying the health claims incurred by its members. At a minimum, additional assurance needs to be provided to ensure dependents on Metro's health plans are eligible and that claims are only paid for those entitled to benefits.

Criteria:

Prudent business practice for ensuring proper employee dependent eligibility and reducing claims liabilities paid out of the Employees' Medical Benefit Fund.

Risk:

Incurring additional liabilities for health claims payable due to ineligible dependents listed as eligible in Metro's accounting system.

Recommendation:

The Board should conduct a dependent eligibility audit to test adherence to the affidavit new hires must sign. The audit would identify any dependents ineligible for benefits according to Metro's guidelines which will ultimately result in reducing the costs associated with paying health claims for those individuals.

Based on the results of the dependency audit, the Board should consider conducting either periodic dependency audits or amending the health plan eligibility criteria policies and require new hires to present documented proof of dependency status for the individuals they wish to add to their insurance plan.

C – Ensure Pensioner Deaths are Identified in a Timely Manner

Additional diligence is needed to ensure that pensioner deaths are identified in a timely manner. According to interviews with Metro HR staff, death check verifications on the pensioner population are not routinely performed due to the cost of this service. In the past, Metro HR utilized a company that would compare Metro's pensioner population against the death master index and possible matches would be listed so that Metro HR could further analyze each reported possible match. Based on accounting records, Metro HR last used this service in February 2007 for a fee of \$500.

Because this service was discontinued, further evaluation was conducted by reviewing the pensioner master file as of March 2, 2009 provided to us by Metro HR. Our review consisted of determining whether each pensioner in the master file from the eldest age of 107 to age 70 for a total of 3,595 pensioners out of 7,006 or (51.31%) was listed in the Social Security Death

Index. Based on the results of our review, we identified two out of 3,595 pensioners or (.056%) who were listed as deceased in the Social Security Death Index. Upon confirmation of death dates via death certificates provided to us by the Metro Health Department it was also determined that the two individuals were deceased as of January 2008, and were still receiving pension payments as of May 2009 for a total of approximately \$26,000 made in overpayments since February 2008.

Our office immediately notified Metro HR so that the two pensioners could be terminated in Metro's accounting system. During discussions with Metro HR Management, it was then determined that one of the deceased pensioner's family members reported the death to Metro HR in January 2008, and the paperwork got misfiled so the pensioner was not terminated or (coded as ineligible for pay and benefits) in the system.

Criteria:

- Benefit Step by Step Procedures Manual; Death Check Verifications
- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Having detection controls in place to identify pensioner deaths in a timely manner can reduce pension expense liabilities.
- Metropolitan Code § 3.08.230 – *Change or Error in Records*

Risk:

By not utilizing detection controls to ensure that pensioner deaths are identified in a timely manner, pensioner's can continue to receive paychecks and potential instances of fraud could occur without detection.

Recommendation:

Metro HR Management should reconsider utilizing the death check verification service they used in the past. Death check verifications could be conducted on an annual basis, so that any overpayments that may have been made can be recouped in a timely manner and as provided by Metro Code § 3.08.230.

Additionally, Metro HR Management should ensure that employees are cross trained in handling reports of pensioner deaths so that paperwork can be placed in a central location for follow-up.

D – Applying Disability Pension Adjustments Should Be Improved

The process regarding disability pension adjustments should be improved. We reviewed 48 out of 812 or (5.91%) disability pensioner's files to determine if Metro HR was reviewing and verifying the information reported by the pensioner on the annual disability pension questionnaires. During our review, we identified two disability pensioners out of 48 or (4.16%) of those sampled were receiving incorrect disability pension amounts.

- According to disability pensioner files, one of the two identified, was awarded Social Security disability benefits as of February 2003, yet their base pension amount was never reduced by \$564.16 as according to Metro Code. The award letter was initialed as being received by Metro HR on February 24, 2003; however the pension adjustment had not been entered into Metro's accounting system as of May 2009. Due to this error, the pensioner was overpaid approximately a total of \$42,300 since 2003.

Metro HR has since recognized the error, and as of June 30, 2009 the pension was reduced to the correct amount.

- The other pensioner identified was receiving the 10% dependent child benefit in addition to their base pension. According to disability pensioner files, the dependent child benefit should have stopped as of July 31, 2001; however, the adjustment was not entered into the accounting system as of May 2009. Due to this error, the pensioner was overpaid approximately \$24,900. According to discussions with Metro HR staff, it was determined that during a computer system conversion that occurred in 2000, the pensioner's base amount and the dependent child benefit amount, which normally are two line items, were added together and entered into the new system as one line amount as the base pension.

Due to this discovery Metro HR is currently reviewing all disability pensioner files and payment history, to determine if any other errors of this type occurred so they can be identified and corrected as soon as possible.

Criteria:

- Metropolitan Code § 3.28 – *Disability Pensions Division A*
- Metropolitan Code § 3.29 – *Disability Pensions Division B*

Risk:

By not entering disability pensioner adjustments into the accounting system, pensioners will be overpaid.

Recommendation:

To ensure disability pensions are reflected in the accounting system, Metro HR Management should review their current process for applying disability pensioner adjustments and establish some form of management review which would require employee sign off's to document that adjustments are received, reviewed, approved and properly entered into the accounting system. Establishing an extra level of review documented by employee sign off's, can be beneficial to Metro HR Management because any future breaks in the process can then be easily identified.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from March 2009 to July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2006 through March 31, 2009 financial balances, transactions, and performance on the processes in place during the time of the audit.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by Metro HR. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed.

CRITERIA

In conducting this audit, the existing processes and controls in place pertaining to employee benefits were evaluated for compliance with:

- Metropolitan Code, Title III Personnel
- COSO Internal Control, Integrated Framework
- Human Resources Benefit Section Step by Step Procedure Manual

STAFF ACKNOWLEDGEMENT

Carlos Holt, CPA, CIA, CFE, CGAP - Audit Manager
Jane Terry, CFE - In Charge Auditor
Roxanne Caruso - Staff Auditor
Jennifer Maxwell - Staff Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -

Karl F. Dean
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

HUMAN RESOURCES DEPARTMENT
Civil Service – Employee Benefits
222 Third Avenue North, Ste 200
Nashville, TN 37201

September 22, 2009

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue, North, Suite 401
Nashville, TN 37201

Re: Audit of Metro General Government Employee Benefits

Dear Mr. Swann:

This letter acknowledges that the Human Resources Department, as coordinator of employee benefit services, received the report entitled: Audit of Metro General Government Employee Benefits. The draft audit recommendations and responses to these recommendations were submitted to the Benefit Board's Study Session on September 15, 2009.

We are pleased that you did not find numerous issues with the management of employee benefits and agree with the recommendations made. We had begun putting the suggested recommendations in place and will continue to look for ways to improve our services.

Thank you for your assistance in helping us advance our goal for excellence.

Sincerely,

A handwritten signature in cursive script, reading "Rita Roberts-Turner".

Rita Roberts-Turner
Director of Human Resources

\\AHUMAN RESOURCES MAIN FILE\correspondence\drafts\Mark Swann letter draft.doc

**Audit of Metro General Government Employee Benefits
Management Response to Audit Recommendations - September 22, 2009**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. Appropriate action should be taken by the Board in considering a trust fund balance policy for the Medical Trust Fund.</p>	<p>Agree. The Benefit Board at the August Study Session decided to consider adopting a draft policy to address this issue. Finance Director Rich Riebeling and Lannie Holland are developing the policy for review by the Benefit Board.</p>	<p>Rich Riebeling Lannie Holland</p>	<p>12/31/2009</p>
<p>B. The Board should conduct a dependent eligibility audit to test adherence to the affidavit new hires must sign. The audit would identify any dependents ineligible for benefits according to Metro's guidelines which will ultimately result in reducing the costs associated with paying health claims for those individuals.</p> <p>Based on the results of the dependency audit, the Board should consider conducting either periodic dependency audits or amending the health plan eligibility criteria policies and require new hires to present documented proof of dependency status for the individuals they wish to add to their insurance plan.</p>	<p>Agree. The Benefit Board is currently considering how to accomplish this goal. This issue is scheduled for the September Study Session with action to be taken at the October Board Meeting.</p>	<p>Ginger Hall</p>	<p>7/31/2010</p>
<p>C. Metro HR Management should reconsider utilizing the death check verification service they used in the past. Death check verifications could be conducted on an annual basis, so that any overpayments that may have been made can be recouped in a timely manner and as provided by Metro Code § 3.08.230.</p> <p>Additionally, Metro HR Management should ensure that employees are cross trained in handling reports of pensioner deaths so that paperwork can be placed in a central location for follow-up.</p>	<p>Agree. Prior to the issuance of this report, Metro HR requested approval from the Finance Department for sole source procurement for death audit services to be provided for Metro's pension population. The Metro contract has been submitted to the vendor for review and we are currently waiting on the signed contract to be returned to Metro. The death audit service is scheduled to begin by the end of December.</p> <p>Although we did not use a contracted verifications service, there were some controls in place and in cases where payments are made in error there is a recovery process in place. For example, one of the two individuals who improperly received payments has already agreed to repay Metro.</p>	<p>Justin Stack</p>	<p>12/31/2009</p>

**Audit of Metro General Government Employee Benefits
Management Response to Audit Recommendations - September 22, 2009**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>D. To ensure disability pensions are reflected in the accounting system, Metro HR Management should review their current process for applying disability pensioner adjustments and establish some form of management review which would require employee sign off's to document that adjustments are received, reviewed, approved and properly entered into the accounting system. Establishing an extra level of review documented by employee sign off's, can be beneficial to Metro HR Management because any future breaks in the process can then be easily identified.</p>	<p>Agree. Prior to the issuance of this report, Metro HR has designed a pension adjustment form to be signed off by each employee involved in the pension adjustment process. The new form will be forwarded to the special projects manager for review and will assist in additional checks and balances for this process.</p>	<p>Justin Stack</p>	<p>Completed.</p>