AUDITOR'S REPORT

HARRIS HEALTH SYSTEM
RETIREE BENEFIT CONTROLS

July 30, 2015

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HARRIS COUNTY AUDITOR

July 30, 2015

Mr. George Masi
President and Chief Executive Officer
Harris Health System
2525 Holly Hall
Houston, Texas 77054

RE: Harris Health System Retiree Benefit Controls for the five months ended October 31, 2014

The Audit Services Department performed procedures relative to the Harris Health System (Harris Health) Retiree Benefit Controls for the five months ended October 31, 2014. The objective of the engagement was to evaluate critical operational and financial controls for administration of retiree benefits. Our procedures included evaluating and selectively testing manual and automated controls for:

- Access to Benefit administration information in PeopleSoft, IntelliVue, and the State Street Pension systems.
- Complying with policies for providing retirees with retiree health benefits.
- Computing, recording, collecting, and depositing retiree health benefit payments remitted to Harris Health by the trustee of the Harris County Hospital District Pension Plan.
- Computing, recording, collecting, and depositing retiree health benefit payments remitted directly to Harris Health by retirees.
- Separating the duties of Benefit Department employees responsible for retiree health benefits.

The engagement process included providing you with engagement and scope letters and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

Mr. George Masi
President and Chief Executive Officer

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,

Barbara J. Schott
County Auditor

cc: Harris Health System Board of Managers
District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
El Franco Lee
Jack Morman
Steve Radack
Devon Anderson
Vince Ryan
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OVERVIEW

Qualified regular full-time and part-time employees that retire from Harris Health can elect to continue to receive retiree and dependent health, vision, and dental benefits (retiree health benefits) through benefit plans that Harris Health provides to current employees. To receive retiree health benefits, the retiring employees must be actively covered under Harris Health's health benefit plans when they retire and meet the criteria outlined in Harris Health Policy 6.04, *Health and Related Benefits*. Choices available for retiree health benefits are the same as those available to current employees.

Retirees that elect to receive retiree health benefits are required to pay the same subsidized cost that current employees pay through payroll deduction. Retiree health benefits payments recorded to Harris Health financial records during the five months ended October 31, 2014 were approximately $1,218,000.

Employees that are retiring meet with a Health Benefits Representative from the Benefits Department and are informed of retiree health benefits available and the costs. They have 31 days from their effective date of retirement to elect to receive retiree health benefits. If they decline, they also lose the opportunity to receive retiree health benefits in the future.

If a retiring employee elects to receive retiree health benefits and has earned a pension benefit from the Harris County Hospital District Pension Plan (Pension Plan), they are encouraged to have their monthly health benefit costs deducted from their monthly pension benefit payment. If the retiring employee agrees, a Pension Benefits Representative accesses the Pension Plan Trustee's (Trustee) system and enters the retiring employee's name, demographic information, and the monthly deduction amount.

From the information entered, the Trustee establishes an automatic monthly deduction from the retiring employee's monthly pension payment. The Trustee sends payments for retiree health benefits deducted to Harris Health's bank account by wire transfer twice a month, and notifies an Accounting Assistant II in the Cash Management Department (Cash Management) of the transfer by email. The Trustee sends any retiree pension payments remaining after the deductions to the retirees' individual bank accounts.

Harris Health receives 98% of payments for retiree health costs from the Trustee. The remainder is received from retiring employees that do not have a pension benefit, or whose monthly pension payment is less than their monthly health benefits costs. These retirees must agree to pay Harris Health the unpaid balance (self-pay premium) monthly by check or money order. A Health Benefits Representative computes monthly self-pay premiums and sends letters to retiring employees informing them of the payment amount, due dates, and the address of the Benefits Department where payments are to be sent. Premium coupons that the retirees send with payments are included with the letter.

Health Benefits Representatives are assigned retirees (alphabetically) to monitor for timely payment of self-pay premiums. When payments (checks or money orders) are received in the

Benefits Department, the Health Benefits Representatives record the date of receipt on electronic spreadsheets, and list the retiree's name, payment amount, and check number on a Payment Log.

The Health Benefits Representatives then send checks or money orders and the Payment Logs to an Accounting Assistant II in Cash Management for deposit and recording to Harris Health's financial records. The Accounting Assistant II signs and returns the Payment Log to the Health Benefits Representatives.

If self-pay premium payments are not timely received, Health Benefits Representatives mail letters to retirees informing them their health benefits will be cancelled if their payment is not received in 30 days. A retiree cannot re-enroll for retiree health benefits after their coverage has been cancelled.

Retirees renew their health benefits once a year during the Annual Enrollment period for Harris Health employees. The Health Benefits Representatives mail renewal materials to the retiree's home address with the default schedule that will be followed in the event that no elections are made. Annual Enrollment options and costs for retirees are the same as those available to current employees.

Retiree health benefit costs may change after the Annual Enrollment period. Changes to the amounts to be deducted from monthly pension payments are reported to the Trustee when the Benefits Manager sends an electronic spreadsheet which includes the new monthly retiree health benefits costs for each retiree. Retirees that remit monthly self-pay premium payments to the Benefits Department are sent new premium coupons showing payment amounts and due dates for the new plan year.

RESULTS

Based on procedures performed, the Benefits Department has established processes for ensuring retiring employees are informed of retiree health benefits available to them, and computing and informing the retiring employees of the costs. Processes have also been established to access the Trustees' system and record health benefit costs to be deducted from retirees' monthly pension plan payments.

For retirees that do not have a pension benefit, or whose pension payment does not fully cover the costs of retiree health benefits, processes have been implemented to collect monthly payments from the retiree and send the payments to Cash Management for deposit in Harris Health's bank account.

Although processes have been established to accomplish the above activities, improvements are needed to critical controls for:

- Preventing employees in the Benefits Department from approving data which they enter into the Trustee's system.
- Reconciling payments received from the Trustee to the records of the Benefits Department to ensure accuracy and completeness.
- Monitoring reporting available in PeopleSoft to identify and prevent unauthorized or inaccurate changes to employees and retirees benefit information.
- Assigning employees responsibilities in a manner that provides appropriate separation of duties related to the collection of self-pay premiums.
- Restricting access to employees and retirees benefit information to users that require the information to perform their job responsibilities.
- Reconciling all systems that are used for retiree health benefit recordkeeping when changes to retiree benefit elections occur during a plan year.
- Consistent treatment of retirees who become delinquent in paying self-pay premiums.
- Controlling and monitoring self-pay premium collections activities performed by Health Benefits Representatives.
- Verifying changes that occur during Annual Enrollment are accurately reported to the Trustee.

These issues are discussed in more detail in the Issues and Recommendations matrix below.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Entering Data Into the Trustee's System	Employees in the Benefits Department have been given data entry and approver access to the Trustee's information system. The Trustee's system requires that separate individuals perform "data entry" and "approval" functions by requiring that the individuals be logged into the system with different user sign-in codes (user IDs).	For purposes of cross-training and backup, employees in the Benefits Department have been given two user IDs to access the Trustee's system. One user ID allows the employees to enter data and the other allows them to approve the data entered. As a result, the employees with two user IDs have the ability to circumvent Trustee system controls and approve data which they enter, which increases the risk that incorrect data may be intentionally or unintentionally entered without detection.	Benefits Department Management should discontinue allowing employees in the Benefits Department to have two user IDs to access the Trustee's system that allows them to approve data that they have entered.	We agree with the recommendation. Going forward the Retirement Benefits Representatives will only have access to data entry. Approvals will be managed by the Retirement Supervisor, Health and Welfare Supervisor and Benefits Manager. As of 5/5/2015 a request has been submitted to State Street, Trustee, for separation of data entry and management.
Verifying the Accuracy of Trustee Payments	The Trustee sends payments for health benefit costs deducted from retiree pension payments to Harris Health's bank account by wire transfer twice a month.	The payments sent to Harris Health by the Trustee are not verified for accuracy and completeness. As a result, underpayments or overpayments by the	Benefits Department Management should begin reconciling payments from the Trustee to the records maintained in the Benefits Department to ensure the amounts remitted are	We agree with the recommendation. Benefits Representative is reviewing and reconciling remitted amounts as of 03/01/2015.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Verifying the Accuracy of Trustee Payments		Trustee may not be detected.	accurate and complete.	
Tracking Benefit Changes	The employee and retiree benefits information system used by Harris Health (PeopleSoft) provides reporting capabilities to identify and prevent unauthorized or inaccurate changes to employee and retiree benefit information.	The reporting capabilities available in PeopleSoft to identify and prevent unauthorized or inaccurate changes to employee and retiree benefit information are not used at Harris Health. As a result, there is an increased risk that unauthorized or inaccurate changes may occur to employee and retiree benefit information without detection.	Benefits Department Management should implement the reporting capabilities available in PeopleSoft to identify and prevent unauthorized or inaccurate changes. There should also be procedures to perform periodic reviews of the reports and if employees are identified as making unauthorized or inappropriate changes, they should be counseled or disciplined as appropriate.	We agree with the recommendation and this will be implemented with implementation of PeopleSoft 9.1, June 2015. Periodic reviews will be conducted on a quarterly basis thereafter.
Performing Incompatible Duties	Health Benefits Representatives receive monthly self-pay premium payments (checks or money orders) and prepare the Payment Logs that they send with the checks or money orders to Cash	Health Benefits Representatives are performing incompatible duties by receiving checks or money orders and maintaining and monitoring records of self-pay premium payments due,	Benefits Department Management should assign an employee not responsible for maintaining and monitoring self-pay premium payments due, paid, and past due to: • Open the mail and	We agree with the recommendation. The opening of mail, endorsing of checks or money orders, providing copies of checks or money orders to the Benefits personnel, completing payment log and delivering

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Performing Incompatible Duties	Management. The Health Benefits Representatives also maintain and monitor records of retiree self-pay premium payments due, paid, and past due.	paid, and past due. As a result, there is an increased risk of misappropriation of checks or money orders without detection.	restrictively endorse checks or money orders received. • Make copies (front and the back) of the checks or money orders received. • Give the appropriate Health Benefits Representatives copies of the checks or money orders to update their records. • Complete the Payment Logs and deliver them to Cash Management with the checks or money orders. • Receive and maintain copies of the Payment Logs returned by Cash Management.	the checks or money orders to Cash Management is now being handled by Compensation personnel effective 03/01/2015. The Benefits personnel reconcile the payment logs provided by Cash Management with the copies provided by Compensation.
Restricting System Access	Policy 3.11.807, *Information Access Management Policy*, states that access provided to information systems users should be restricted to the minimum required by the user to perform their job	Access provided to Benefits Department systems is not always restricted to the minimum required for employees to perform their job responsibilities as follows: • One Pension Benefits	Benefits Management should deactivate access to benefit information for users that do not need the information to perform their job responsibilities. In addition, formal written	We agree with the recommendation to limit access to IntelliVue. Access being limited to Benefits personnel, HRIS Director and VP of HR only. All other requests will be approved on an as needed basis. Access to

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Restricting System Access	responsibilities.	Representative had access which allowed them to edit and view employees and retirees benefit information in PeopleSoft. • Seventy-one Harris Health employees that work outside of the Benefits Department had access to employees and retirees benefit information that they did not need through an imaging and document storage system (IntelliVue). • Access to IntelliVue had not been deactivated for eight individuals that were no longer employed at Harris Health. There was no audit trail for Audit Services to determine whether the former employees' access credentials were used to access IntelliVue after the employees last day of	procedures should be developed for requesting, approving, monitoring, and providing the minimum required access to users, and for deactivating access no longer required. Appropriate employee training should be provided.	others will be removed by 05/31/2015.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Restricting System Access		employment. Not ensuring that access is appropriately restricted and timely deactivated increases the risk of unauthorized viewing and/or disclosure of confidential employee and retiree information.		
Updating Systems for Election Changes	Under certain predefined conditions, retirees are able to make changes during a plan year to retiree health benefit elections made during Annual Enrollment periods (i.e. add or remove spouse or dependent coverage). The changes may require updating PeopleSoft (the system used by Harris Health to inform the third-party administrator of retirees' coverage), the Trustee's system, and the self-pay electronic spreadsheets maintained by Health Benefits Representatives.	There are no formal written procedures to ensure all systems are timely updated for changes to retiree benefit elections. Of 20 changes tested, four (20.0%) had not been updated in PeopleSoft. In addition, one pension payment deduction was $170.76 per month too low from March 2014 until February 2015, because the Trustee's system was not updated for dependent coverage added, and one self-pay premium payment was $15.82 per month too low from January 2014 until February 2015,	Benefits Department Management should update systems for the errors identified and determine whether retiree overpayments or underpayments not identified by Audit Services occurred. The Harris Health Corporate Compliance Officer should be consulted regarding the resolution of amounts collected in error. Going forward, a process should be implemented to ensure all systems are timely updated for retiree health benefit election changes that occur during a	We agree with the recommendation. Errors identified by Audit Services have been corrected effective 03/01/2015. Management will review the complete file to determine if any other overpayments or under payments occurred. The audit process will change to be the responsibility of one individual and management will ensure that it is completed on a semi-annual basis by Benefits Supervisors. We will notify Corporate Compliance of our restitution process by 05/31/2015.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Updating Systems for Election Changes		because no adjustment was made for income tax withheld. Not updating PeopleSoft could result in inaccurate coverage being reported to Harris Health's third party administrator and not updating the Trustee's system or the self-pay spreadsheets could cause inaccurate reimbursement of retiree health benefit costs.	plan year.	
Sending Cancellation Letters	Retiree self-pay premium payments are due on the first day of each month. Health Benefits Representatives send letters to retirees that have not paid on time informing them that they have 30 days to pay or their retiree health benefits will be discontinued.	There are no formal written procedures for sending letters to retirees not remitting self-pay premium payments timely. The letters may be sent at various times after the due dates, depending on the retiree's payment history. As a result, retirees that do not pay their self-pay premiums on time may be treated inconsistently.	Benefits Department Management should create formal written procedures to ensure that retirees that do not pay their self-pay premiums timely are treated consistently.	We agree with the recommendation. This process has been updated as 05/01/2015 to reflect that letters are sent on the first of each month or the next business day should the first fall on a weekend or holiday.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Controlling and Monitoring Self-pay Premium Payments	Approximately $24,000 in retiree self-pay premium payments were recorded in Harris Health financial records during the five months ended October 31, 2014. Health Benefits Representatives record the amounts due, payments received, and past due amounts on electronic spreadsheets.	There are no formal procedures for management monitoring and review of retiree self-pay premium collection activity and Health Benefits Representatives maintain accounts receivable records on electronic spreadsheets Not requiring formal management monitoring of account receivable activity and using electronic spreadsheets to maintain accounts receivable records increases the risks that inadequate or inappropriate collection activities may not be detected.	Benefits Department Management should develop procedures for monitoring self-pay premium collection activity through monthly management review of collection records. In addition, a cost/benefit analysis should be performed to determine whether a more sophisticated automated accounts receivable system should be acquired or developed which would include standard controls for recording, balancing, and reporting on retiree self-pay premiums.	We agree with the recommendation. Will implement a monthly audit process by the 5th of each month that will review for timeliness and accuracy by 06/01/2015. As of 05/07/2015 we have made an initial outreach to discuss electronic internal financial capabilities, if none exist then consider and RFI/RFP.
Reporting Changes for Annual Enrollment Period	Changes to retiree health benefit costs that occur as a result of the Annual Enrollment are reported to the Trustee by sending them an electronic spreadsheet.	Changes to retiree health benefit costs reported to the Trustee for Annual Enrollment are not independently verified for accuracy. As a result, the deduction amount reported to the Trustee for retiree	Benefits Department Management should implement procedures to ensure the accuracy of information reported to the Trustee, such as independent reviews by an employee that did not	We agree with the recommendation. A process to review deduction changes after Annual Enrollment has been implemented and will occur by May each year following the start date of the new plan year.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Reporting Changes for Annual Enrollment Period		dental coverage for the 2015 plan year was not correct. Although the difference was immaterial, not ensuring Annual Enrollment changes reported to the Trustee are accurate increases the risk that retirees may under or overpay their self-pay health benefit costs.	compute the amounts.	

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	**Control Risk:**		**Overall Risk:**
☒ High ☐ Moderate ☐ Low	**Prior to Procedures** **Needed Improvement**	**After Procedures** **Needs Improvement**	☒ High ☐ Moderate ☐ Low
Type of Procedures: Audit			
Purpose: To evaluate critical operational and financial controls for administration of retiree benefits.			
Outstanding Audit Recommendations:			

Priority Rating:	**Audit Recommendations:** Harris Health System
1	Discontinue allowing employees in the Benefits Department to have two user IDs to access the Trustee's system that allows them to approve data that they have entered.
1	Begin reconciling payments from the Trustee to the records maintained in the Benefits Department to ensure the amounts remitted are accurate and complete.
2	Implement reporting capabilities available in PeopleSoft to identify and prevent unauthorized or inaccurate changes and perform periodic reviews for employees making unauthorized or inappropriate changes.
1	Assign an employee not responsible for maintaining and monitoring self-pay premium payments due, paid, and past due to: • Open the mail and restrictively endorse checks or money orders received. • Make copies (front and the back) of the checks or money orders received. • Give the appropriate Health Benefits Representatives copies of the checks or money orders to update their records. • Complete the Payment Logs and deliver them to Cash Management with the checks or money orders. • Receive and maintain copies of the Payment Logs returned by Cash Management.

1	Deactivate access to benefit information for users that do not need the information to perform their job responsibilities and develop formal written procedures for requesting, approving, and providing the minimum required access to users, and for deactivating access no longer required.
1	Update systems used by the Benefits Department for the errors identified and determine whether retiree overpayments or underpayments not identified by Audit Services occurred. Consult with the Harris Health Corporate Compliance Officer regarding the resolution of amounts collected in error. A process should be implemented to ensure all systems are timely updated for retiree health benefit election changes that occur during a plan year.
1	Create formal written procedures to ensure that retirees that do not pay their self-pay premiums timely are treated consistently.
1	Develop procedures for monitoring self-pay premium collection activity through monthly management review of collection records. Perform a cost/benefit analysis for acquiring or developing a more sophisticated automated accounts receivable system.
1	Implement procedures to ensure the accuracy of information reported to the Trustee, such as independent reviews by an employee that did not compute the amounts.
Priority Rating	1. **Implement immediately (30 – 90 days) –** Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. **Work towards implementing (6 – 18 months) –** Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. **Implement in the future (two – three years) –** Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).