

**Follow-up of the Audit of the  
Orange County Human  
Resources Division**

**Report by the  
Office of County Comptroller**

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**Report No. 384  
July 2007**

## TABLE OF CONTENTS

Transmittal Letter .....	3
Implementation Status of Previous Recommendations For Improvement .....	4
Introduction .....	11
Scope and Methodology .....	12
Follow-Up To Previous Recommendations For Improvement.....	13
1. The Division Should Submit Accurate and Complete Compensation Plans for the Board of County Commissioners' Approval .....	14
2. Personnel Records Should Include Documentation and Support for All Compensation and Performance Evaluation Actions .....	15
3. Position Control Procedures Should Be Strengthened to Ensure That All New or Reclassified Positions Are Authorized and Approved Before the Position Is Filled.....	16
4. The Division Should Maintain Appropriate Documentation to Support Authorized Position Additions and Reclassifications.....	20
5. The Division's Procedures Manual Should Be Updated .....	21
6. Written Job Descriptions Should Be Prepared for All Existing Job Codes and Titles.....	22
7. Deferred Compensation Plan Providers Should Be Selected Through a Competitive Procurement Process.....	23
8. The County Should Update the Deferred Compensation Plan Established Through the Orange County Code of Ordinances for County Officials .....	24
9. Controls Over Employee Leave Bank Benefits Need Improvement .....	25
10. Controls Over Family and Medical Leave Benefits Need Improvement .....	27
11. Formal Amendments to Core Benefit Contracts Are Necessary to Ensure Legally Binding Changes to Contract Definitions and Terms .....	30
12. The Division Should Work to Eliminate Inconsistencies Between Orange County Policy, Benefit Contracts Language and Summarized Benefits Information Disseminated to Employees.....	31
13. Performance Guarantees Contained in Health and Dental Benefits Contracts Should Be Monitored to Ensure Providers Comply with Contract Terms .....	33
14. Proper Administration of Benefit Plans Require the Monitoring of Participants' Eligibility .....	35
15. When Applicable, Requests for Insurance Coverage Changes Due to Family Status Changes Should Be Submitted with Appropriate Supporting Documentation .....	36
16. The Division Should Monitor Life and Long-term Disability Insurance Claims.....	37
17. The Division Should Monitor Supplemental Insurance Providers' Enrollment Activities and Financial Ratings .....	38
18. Budgetary Performance Measure Goals Based on Objective Analytical Methods Need to Be Established and Utilized.....	39
19. Appropriate Data Should Be Used in Reporting Performance Measures .....	40

July 12, 2007

Richard T. Crotty, County Mayor  
And  
Board of County Commissioners

We have conducted a follow-up of the Audit of the Human Resources Division (Report No. 345). Our original audit included the period of April 1, 2001 to March 31, 2002. Testing of the status of the previous Recommendations for Improvement was performed for the period October 1, 2005 through March 31, 2006. Our follow-up audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-Up to Previous Recommendations for Improvement presents a summary of the previous conditions and the previous recommendations. Following the recommendations is a summary of the current status as determined in this review.

We appreciate the cooperation of the personnel of the Human Resources Division during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Ajit Lalchandani, County Administrator  
Sharon Donoghue, Deputy County Administrator  
J. Ricardo Daye, Director, Human Resources Division

**IMPLEMENTATION STATUS OF  
PREVIOUS RECOMMENDATIONS  
FOR IMPROVEMENT**

**FOLLOW-UP OF THE AUDIT OF THE HUMAN RESOURCES DIVISION  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1.	We recommend the Division submits all salary grades utilized in its compensation plan to the Board for their approval. The Division should review the casual labor positions and work with department managers to determine the appropriate salary ranges for casual labor and other positions left out of previous plans. The Division should also implement procedures to ensure the accuracy and completeness of the data submitted to the County Commissioners in their presentation of salary grade ranges.	✓			
2.	We recommend the Division implements procedures to ensure complete records of an employee's salary history with appropriate authorizations are maintained.		✓		
3.	We recommend the following:				
A)	Requests for additional positions (increase in force) and reclassifications should be reviewed and evaluated by the Division prior to the position's approval.	✓			
B)	A standardized method to document HRIS' authorizations to create, activate, or reclassify positions in the PeopleSoft database should be established.	✓			

**FOLLOW-UP OF THE AUDIT OF THE HUMAN RESOURCES DIVISION  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
C)	A detailed reconciliation of the number of Board approved budgeted, unbudgeted, and proposed positions to the positions recorded in PeopleSoft on a departmental basis by job codes should be performed on a periodic basis by the Division and reviewed by the Office of Management and Budget.	✓			
D)	Assign unique position numbers for each job code and employee in a one-to-one ratio. If that is not accomplished, then we recommend that the County utilize the PeopleSoft applications' programmed controls to set a limit for the number of individuals filling a position. The Human Resources Information System Administrator should implement "hard" controls to prevent the assignment of more than the maximum number of individuals to a position.		✓		
E)	Traditional paper trails, software workflow technology, or other appropriate methods to evidence the required authorizations and steps necessary to create or reclassify a position should be utilized.	✓			
4.	We recommend the Division carefully reviews current approval, documentation, and record retention practices in order to develop and implement procedures that will provide adequate support for all new and reclassified positions.	✓			

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STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
5.	We recommend the Division updates the Orange County Procedures Manual in a timely manner, and complies with revised procedures. In addition, the Policy Manual should be revised to clarify the procedures and documentation requirements for position addition/reclassifications as well as hiring authority.	✓			
6.	We recommend the Division establishes and implements procedures that will ensure job descriptions, providing information on minimum qualifications and performance standards, are available for all positions. Further, all employees should meet the minimum job requirements, unless specific documentation exempting the employee is prepared, approved, and retained.		✓		
7.	We recommend the County initiates and completes a competitive procurement process to select deferred compensation plan providers.		✓		
8.	We recommend the County Code of Ordinances be reviewed and, as necessary, amended to reflect changes in plan participation and administrative requirements.			✓	
9.	We recommend the Division ensures:				
A)	Distribution of all policies and/or revisions to all County user departments in a timely manner;	✓			

**FOLLOW-UP OF THE AUDIT OF THE HUMAN RESOURCES DIVISION  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
B)	Compliance with Orange County policies and operational regulations that restrict Employee Leave Bank benefits to 320 hours per year, through the establishment and implementation of monitoring procedures coordinating and reconciling leave usage information obtained from the Comptroller's Payroll Department; and,	✓			
C)	Maintenance of adequate documentation to support the award of leave bank benefits to an employee.	✓			
10.	We recommend the County review the revised Family and Medical Leave policy, and establish written procedures to assist department managers and department human resources coordinators in the consistent implementation of the policy in accordance with the Family and Medical Leave Act of 1993, by providing:				
A)	Easily accessible reports of cumulative hours of FML taken to date by the employee, in addition to procedures to coordinate and ensure compliance with FML policies when employee and spouse-employee request FML for the same qualifying event;			✓	
B)	Easily accessible reports and revised application forms including instructions to document and verify that the 1,250 hours worked eligibility have been met prior to approval of FML; and,		✓		



**FOLLOW-UP OF THE AUDIT OF THE HUMAN RESOURCES DIVISION  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
C)	Specific time periods, within which the HR Coordinators are to issue written notification approval or denial of FML designations of absences.			✓	
11.	We recommend the Division coordinates with the Purchasing and Contracts Division and follow established regulations and procedures in the amendment of any contract terms.	✓			
12.	We recommend the Division coordinates with the County Administrator's Office and the County Attorney's Office to ensure that all policy programs are in compliance with the executed benefit contracts.		✓		
13.	We recommend the Division monitor and document providers' compliance or non-compliance with all performance guarantees included in the respective contracts, and pursue collection of at-risk dollars for guarantees not met.			✓	
14.	We recommend the Division develops and coordinates procedures to monitor participants' enrollment in benefit programs to ensure participation eligibility.	✓			
15.	We recommend the Division obtains sufficient documentation to support an employee's request to make a qualified benefit election change during the plan year as required by the Internal Revenue Code Section 125.	✓			

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STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
16.	We recommend the Division establishes procedures to routinely monitor processing of claims and paid claims ensuring the documentation of notifications given to employees placed on long term disability coverage of the available options to continue life insurance, and verifying claims eligibility and benefits paid.	✓			
17.	We recommend the Division complies with Orange County Administrative Regulation 7.03.02, (II) by establishing and implementing monitoring procedures to ensure supplemental insurance providers use appropriate marketing and enrollment procedures, and maintain financial ratings.				✓
18.	We recommend the Division utilizes objective analytical methods to forecast performance measure goals.		✓		
19.	We recommend the County reviews the performance measures selected for the Division, and ensures that the data reported is an appropriate measure to track and use in evaluation of the Division's operational efficiency and effectiveness.	✓			

# INTRODUCTION

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## INTRODUCTION



Follow-Up Audit of the  
Orange County  
Human Resources Division

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### Scope and Methodology

The scope was limited to an examination of the status of the previous Recommendations for Improvement from the Audit of the Orange County Human Resources Division, Report No. 345, issued in April of 2004. Testing of the status of the previous recommendations was performed for the audit period October 1, 2005 through March 31, 2006.

We interviewed personnel in the Human Resources Division and other areas of the County, reviewed source documents, and performed the tests necessary to determine the implementation status of the previous recommendations. We have described the specific methodologies utilized during our review after the implementation status of each recommendation in the Follow-Up to Previous Recommendations For Improvement section of this report.

**FOLLOW-UP TO PREVIOUS  
RECOMMENDATIONS FOR  
IMPROVEMENT**



**1. The Division Should Submit Accurate and Complete Compensation Plans for the Board of County Commissioners' Approval**

The Compensation Plan documents submitted to the Board of County Commissioners (Board) for the fiscal year 2001-2002 did not include four salary grades utilized for casual labor positions. We noted the plan contained mathematical errors in the amounts shown for the minimum pay in two salary grades. We also noted the pay plan approved by the Board for the fiscal year 2003-2004 did not include the salary grades utilized for various casual labor positions.

**We Recommend** the Division submits all salary grades utilized in its compensation plan to the Board for their approval. The Division should review the casual labor positions and work with department managers to determine the appropriate salary ranges for casual labor and other positions left out of previous plans. The Division should also implement procedures to ensure the accuracy and completeness of the data submitted to the County Commissioners in their presentation of salary grade ranges.

**Status:**

Implemented. We reviewed the approved pay plan for the fiscal year 2005-2006, and noted that it included all non-collective bargaining unit employees as well as a section for temporary employee casual labor pay ranges. We also reviewed information used by the departments to determine temporary employment positions (casual labor).

We also determined that procedures have been implemented to ensure the accuracy and completeness of the salary grade range date. Hourly rates are now developed using a formula that rounds to two decimal places and PeopleSoft calculates the annualized rates rounded to zero decimal places.

**2. Personnel Records Should Include Documentation and Support for All Compensation and Performance Evaluation Actions**

The annual pay increases approved by the Board for the three fiscal years ending September 30, 2003, were processed through the use of computer software and were not documented through an Employee Change Notice (ECN) executed by the employees' supervisors. The Board approved the annual increases for employees meeting performance standards; however, we found that evaluations documenting performance were missing from certain employees' files maintained by the Division. The Division provided each employee the authorized increase unless the employees' supervisors submitted an ECN evidencing that the employee was ineligible for the increase. No documentation of the increase was prepared and recorded in each employee's personnel file.

**We Recommend** the Division implements procedures to ensure complete records of an employee's salary history with appropriate authorizations are maintained.

**Status:**

Partially Implemented. We reviewed the current year rate adjustment binder maintained by the Division that includes each employee's beginning and ending rate of pay, maximum hourly rate of pay given their pay grade, and comments for employees receiving lump sum payment or employees not qualifying for the annual adjustment.

The Division's current practice is to grant all employees an annual increase in pay unless department or division management notifies them otherwise. An ECN and an unsatisfactory performance appraisal are required for all employees that are not eligible to receive the annual adjustment. An annual email is sent to department directors and division managers as a reminder that salary increases are approaching and the Division must be notified of any employees that are not eligible to receive the annual

adjustment, but there is no follow-up to ensure all departments have responded. Although documentation was on file for our review of ten of seventeen employees who did not receive the fiscal year 2005–2006 annual salary adjustment, we could not determine whether all employees not eligible to receive the salary increase were reported to the Division.

**We Recommend** the Division implements procedures to ensure all departments confirm eligibility of employees receiving the annual pay adjustment.

**Management's Response:**

Concur. Procedures will be modified to require Departments to affirm in writing that all employees are eligible for annual salary adjustments and identify exceptions individually.

**3. Position Control Procedures Should Be Strengthened to Ensure That All New or Reclassified Positions Are Authorized and Approved Before the Position Is Filled**

During the initial audit we found that the position control system for the County could be enhanced.

- A) We found that department managers submit approval requests of position additions and/or reclassifications directly to the County Administrator's Office prior to the request's review and subsequent evaluation for merit and reasonableness by the Division and Office of Management and Budget (OMB).
- B) The Human Resources' Information Systems (HRIS) staff is responsible for entering the new or reclassified positions and related information into the PeopleSoft database. We found that approvals of new or reclassified positions are not communicated to the Division in a consistent manner. Often, email



correspondence is the only support provided between the compensation analyst and HRIS staff.

- C) OMB utilizes information from the PeopleSoft database as the basis for determining the total number of existing approved positions and did not independently reconcile the number of positions authorized at the start of the budget period to those entered into the database during that two-year period.
- D) The Division had not implemented a control of a unique position number for each employee. During testing of the 64 positions during the initial audit, we found three positions were filled with more than the maximum limit recorded for the position and maximum limits were not recorded for 57 of these positions.
- E) We noted that the PeopleSoft application is capable of recording the status of the position (approved, frozen, or proposed). However, this functionality is not currently being used and all positions are coded as approved.

**We Recommend** the following:

- A) Requests for additional positions (increase in force) and reclassifications should be reviewed and evaluated by the Division prior to the position's approval.
- B) A standardized method to document HRIS' authorizations to create, activate, or reclassify positions in the PeopleSoft database should be established.
- C) A detailed reconciliation of the number of Board approved budgeted, unbudgeted, and proposed positions to the positions recorded in PeopleSoft on a departmental basis by job codes should be performed

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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on a periodic basis by the Division and reviewed by the Office of Management and Budget.

- D) Assign unique position numbers for each job code and employee in a one-to-one ratio. If that is not accomplished, then we recommend that the County utilize the PeopleSoft application's programmed controls to set a limit for the number of individuals filling a position. The Human Resources Information System Administrator should implement "hard" controls to prevent the assignment of more than the maximum number of individuals to a position.
- E) Traditional paper trails, software workflow technology, or other appropriate methods to evidence the required authorizations and steps necessary to create or reclassify a position should be utilized.

**Status:**

- A) Implemented. Requests for additional positions approved by the board, and reclassification requests outside the budget process are not finalized until the Division evaluates them and the Division Director authorizes the appropriate job classification.
- B) Implemented. We reviewed the sample of 11 additional or reclassified positions. We found appropriate documentation on file for all 11 positions to indicate a standardized method is being used to create, activate, or reclassify positions in the PeopleSoft database. This method required the Compensation Section to analyze the request and make a recommendation to the Division Director. Upon approval by the Director, a memo is prepared by Compensation and used as the source document by HRIS to make the necessary changes in the PeopleSoft system.
- C) Implemented. Although the Division did not reconcile the unbudgeted, proposed and budgeted positions to

the PeopleSoft system, the Division did perform a reconciliation of the budgeted and approved positions by department recorded in the budget book to the positions recorded in the PeopleSoft system. Any discrepancies were followed up with OMB and/or the department. OMB confirmed the Division shares the results of this reconciliation with them. Prior to the beginning of the budget year, OMB provides the Division with a summary of all changes made to their system listing all additions, transfers and deletions. This report is the result of OMB's reconciliation of their records to the PeopleSoft system.

- D) Partially Implemented. The Division now procedurally assigns only one person to each position number, except in instances where temporary employees are filling in for an employee on extended leave or two employees are utilizing job sharing. During our audit, we reviewed all employees with the County and found only 19 assigned to duplicate position numbers. We reviewed six of these positions and found one error where two people were assigned to one position number. This error was immediately corrected. The system is not hard coded to prevent the duplicate entry, but reports an error warning the user of the duplicate entry.

**We Again Recommend** that the County utilizes the PeopleSoft application's programmed controls to set a limit for the number of individuals filling a position. The Human Resources Information System Administrator should implement "hard" controls to prevent the assignment of more than the maximum number of individuals to a position.

**Management's Response:**

Do not concur. Unique numbers are assigned to each position. However, implementing a hard control in PeopleSoft is not appropriate due to the County's

need for flexibility in managing legitimate dual encumbrances and job shares.

- E) Implemented. The Division has implemented standardized forms with signature authorizations to document position control by providing a paper trail of authorizations. Since our previous audit, the Division has implemented several procedures related to new and reclassified positions. There are separate written procedures for both increases in force (new positions) and position reclassifications that occur outside the budget process. The Changes In Authorized Positions, OMB Form 2, now contains a signature section so all required approval signatures, from the initiating department through final approval, are on one page. The Division's Compensation Section now prepares the Reclassification/Increases In Force Memo that is signed by the Director to provide HRIS the authority to add or reclassify positions in the PeopleSoft system. Based on our testing, the Division is following their prescribed procedures.

**4. The Division Should Maintain Appropriate Documentation to Support Authorized Position Additions and Reclassifications**

During our initial audit, we noted the County added 263 new positions. We selected a sample of ten of these new positions to review the documentation retained by the Division to evidence the evaluation, approval, and authorization to add the positions requested. We noted the Division did not retain documentation of the County Administrator's Office or the Board's approval for any of the ten new positions. They were unable to provide a copy of the department managers' memos requesting and summarizing justification for any of the ten added positions. Also job classification analyses were unavailable to support position classifications in eight of the ten positions and evidence of the division manager's approval of the position was missing in three of the ten positions. We also noted



Change in Authorized Positions forms were unavailable to support position additions in two of the ten positions. There were similar instances of missing documentation noted in our test of reclassified positions as well.

**We Recommend** the Division carefully reviews current approval, documentation, and record retention practices in order to develop and implement procedures that will provide adequate support for all new and reclassified positions.

**Status:**

Implemented. All of the positions reviewed during the audit period had adequate support for the position. In addition, the department has developed procedures noting the forms that should be prepared and retained.

**5. The Division's Procedures Manual Should Be Updated**

During the previous audit we reviewed the Human Resources Personnel Policy Manual and determined that the procedures published in the Procedures Manual were out of date. For instance, Section 3, Classification and Compensation, called for the Position Analysis Questionnaire to be reviewed by the Job Evaluation Committee, but we found that the Job Evaluation Committee had been disbanded in 1995. We also found that the Division is not the sole authority in extending formal employment offers to candidates; however, in Section 1 of the Orange County Procedures Manual, Process Step 8 requires that the Division will "notify the candidate selected by the supervisor for the position."

**We Recommend** the Division updates the Orange County Procedures Manual in a timely manner and complies with revised procedures. In addition, the Policy Manual should be revised to clarify the procedures and documentation requirements for position addition/reclassifications as well as hiring authority.

**Status:**

Implemented. The Policy Manual is made available to all departments and divisions through the County Intranet. We noted during our fieldwork that it had been updated in March of 2006 to reflect current practice. Specifically, the reference to the Job Evaluation Committee is no longer included in the Manual and the updated procedures also clarify that the Division is no longer responsible for extending offers to employees. Although not part of the Policy Manual, updated procedures exist to clarify the handling of position additions and reclassifications.

**6. Written Job Descriptions Should Be Prepared for All Existing Job Codes and Titles**

During our initial audit, we found 43 out of approximately 750 regular class jobs did not have written job descriptions. In addition, we tested 60 employees to determine whether the employee met the minimum qualifications required in the job description. We noted one instance where the employee did not meet the minimum required job description and the employee's personnel file did not contain documentation exempting the employee from the requirements. After our inquiry, the requirements were lowered. In another instance an employee's position and job title were changed due to a collective bargaining unit contract and the revised job description had not been prepared.

**We Recommend** the Division establishes and implements procedures that will ensure job descriptions, providing information on minimum qualifications and performance standards, are available for all positions. Further, all employees should meet the minimum job requirements, unless specific documentation exempting the employee is prepared, approved, and retained.

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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**Status:**

Partially Implemented. We selected a sample of 30 out of 985 regular class job codes that were active during our audit period. We found job descriptions were on file for all 30 of our sample items. In addition, we selected a sample of nine employees who were hired subsequent to the issuance of the original audit. One employee in this sample did not meet the minimum qualifications necessary to be hired into the position. This employee was hired as a Teacher's Assistant instead of the Teacher's Aide position for which she qualified. The Teacher's Assistant position requires a certificate, which the employee did not possess at the time of hire. After our notification, the responsible department promptly changed the employee's position and rate of pay to that of a Teacher's Aide. We noted this employee was over paid approximately \$2,100 prior to the discovery and correction of the error.

**We Again Recommend** the Division establishes and implements procedures that will ensure all employees meet the minimum job requirements, unless specific documentation exempting the employee is prepared, approved, and retained.

**Management's Response:**

Concur. Job descriptions are currently 98% complete. HR Division Compensation has been working on and anticipates completion of all job descriptions by the end of the current fiscal year.

**7. Deferred Compensation Plan Providers Should Be Selected Through a Competitive Procurement Process**

During our previous audit we noted the County did not select its current three Deferred Compensation Plan providers through a formal competitive procurement process. The County entered into agreements with these providers in

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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1977, 1983 and 1989 and has allowed employees to participate in the deferral of taxable wages through these plans.

**We Recommend** the County initiates and completes a competitive procurement process to select deferred compensation plan providers.

**Status:**

Partially Implemented. The County Administrator's Office and Comptroller's staff have met to begin the process of competitive negotiation for future deferred compensation providers.

**We Again Recommend** the County initiates and completes a competitive procurement process to select deferred compensation plan providers.

**Management's Response:**

Concur. The County will administer an RFP process and select a new deferred compensation provider by the end of 2007.

**8. The County Should Update the Deferred Compensation Plan Established Through the Orange County Code of Ordinances for County Officials**

The Deferred Compensation Plan established in the Orange County Code of Ordinances at the time of our original audit contained procedures for the administration of the benefit through the use of a multi-agency Advisory Council. The composition of the Advisory Council included a member from each elected official. When revisions to the County Charter several years ago restored the Constitutional powers of the elected officials, some of the providers required separate plans for each constitutional officer while other providers continued to pool the funds received from the separate





offices. The Advisory Council has been inactive and has not met for many years.

**We Recommend** the County Code of Ordinances be reviewed and, as necessary, amended to reflect changes in plan participation and administrative requirements.

**Status:**

Not Implemented. We reviewed the Deferred Compensation Plan in the Orange County Code of Ordinances and determined it had not been amended to reflect changes in plan participation and administration requirements. As noted above, the County Administrator's Office and Comptroller's staff have met to begin the process of competitive negotiation for future deferred compensation providers. The County Administrator's Office also noted that appropriate changes to the County Code would be brought forward this time, which may be by the end of the calendar year.

**We Again Recommend** the County Code of Ordinances be reviewed and, as necessary, amended to reflect changes in plan participation and administrative requirements.

**Management's Response:**

Concur. As the RFP process is developed, the Human Resources Division will work with County Legal to review County Code compliance and recommend removal of Chapter 17, Section 2-91(d): Advisory Council.

**9. Controls Over Employee Leave Bank Benefits  
Need Improvement**

Our review in the prior audit of the policies, procedures, records, and use of employee leave bank benefits found that controls over this benefit need improvement. The Leave Bank is a voluntary program funded by employees where income may be provided to employees who are participants in the bank and experience a personal catastrophic illness or

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

---

injury requiring an extended absence from work which depletes the employee's personal compensated leave balances. We noted the following:

- A) Written policies were not included in the personnel manual. Further, our review noted some inconsistencies between the procedures and actual usage.
- B) There were seven discrepancies between the actual leave taken and the leave recorded on the Division staff's tracking spreadsheets. We also found two Leave Bank participants received benefits in excess of the 320-hour per benefit year maximum, which cost the County \$1,007.

In our review of requests for withdrawals that were approved, forty percent (15 of 37) did not include complete information from the health care providers relating to the prognosis of the employee's condition and/or the follow-up appointment date.

**We Recommend** the Division ensures:

- A) Distribution of all policies and/or revisions to all County user departments in a timely manner;
- B) Compliance with Orange County policies and operational regulations that restrict Employee Leave Bank benefits to 320 hours per year, through the establishment and implementation of monitoring procedures coordinating and reconciling leave usage information obtained from the Comptroller's Payroll Department; and,
- C) Maintenance of adequate documentation to support the award of leave bank benefits to an employee.

**Status:**

- A) Implemented. We found the Orange County Policy Manual contained procedures for the employee leave bank.
- B) Implemented. An Excel spreadsheet is maintained by a Human Resources analyst for all employees who apply for the leave bank and is updated every pay period. The spreadsheet notes a total for the leave taken to ensure employees do not take more than 320 hours per fiscal year. An email is received from the Orange County Comptroller's Payroll Department each pay period listing all employees who have used the leave bank that is compared to the spreadsheet. In addition, another Division analyst reconciles the spreadsheet to leave actually used each pay period. In our test of five employees who used the leave bank during our audit period, we noted the spreadsheet reflected the leave used as noted by the Comptroller's Payroll Department and that none of the employees had used more than 320 hours of the leave bank during the fiscal year.
- C) Implemented. In our test of five employees who used the leave bank during our audit period, we noted that documentation was on file for all five employees that included adequate support for the award of leave bank benefits.

**10. Controls Over Family and Medical Leave Benefits  
Need Improvement**

Our original audit of the Division's administration and monitoring of Family and Medical Leave (FML) benefits disclosed policies and procedures that need to be strengthened.

- A) During the previous audit, the Division was responsible for the centralized granting and

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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administering of these benefits, but they neither maintained records of the actual FML hours taken by the employees nor provided monitoring of the total hours reported. They indicated that it was the employees' department manager's responsibility to track employee usage.

- B) The Division did not document employee eligibility verification.
- C) Twenty-one percent (4 of 19) of the FML employee certification forms reviewed were not signed by the employee within 15 days after the anticipated start date of the leave as required in County procedures.

The FML application forms available to department managers and employees did not include instructions to verify eligibility and determine that an employee worked 1,250 hours in the twelve months preceding the request. The maximum number of FML hours applicable within the 12-week job protection period was also not identified.

The policy also did not adequately address the need for timely notification by the employee to the employer in the event of an unforeseen qualifying event or for timely notification of the employer to the employee and to the Comptroller's Payroll Department.

**We Recommend** the County review the revised Family and Medical Leave policy and establish written procedures to assist department managers and department human resources coordinators in the consistent implementation of the policy in accordance with the Family and Medical Leave Act of 1993, by providing:

- A) Easily accessible reports of cumulative hours of FML taken to date by the employee, in addition to procedures to coordinate and ensure compliance with FML policies when employee and spouse-employee request FML for the same qualifying event;

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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- B) Easily accessible reports and revised application forms including instructions to document and verify that the 1,250 hours worked eligibility have been met prior to approval of FML; and
  - C) Specific time periods, within which the HR Coordinators are to issue written notification approval or denial of FML designations of absences.

**Status:**

- A) Not Implemented. We reviewed FML files at five County departments for a total of 33 employees and found records kept by the departments for 13 of the employees did not agree with the hours actual designated as FML hours. Departments track FML designated hours on an Excel spreadsheet, although there is a Family Medical Leave Application in PeopleSoft. We found this application is only available to the FML specialist in the Division at this time. There are no easily accessible reports available to the various County departments of cumulative hours of FML taken to date by the employee.
- B) Partially Implemented. Management did not document that the 1,250 service hours had been verified prior to granting leave for 22 of the 33 files reviewed. We did note that the employee certification form was revised in March 2006 to include spaces to document verification of FML eligibility criteria such as the 1,250 hours of service requirement, but only one of these revised forms was included in our sample. Documentation was sufficient for this employee. In addition, there are no reports available to verify an employee had worked 1,250 hours in the 12 months prior to requesting the FML.
- C) Not Implemented. Neither the FML Standard Operating Procedure, the Orange County Policy Manual, nor the operational regulation indicated a date by which the County is to issue written



notification of approval or denial of FML designated absences. Our testing indicated that in 32 of the files reviewed, the approval letters were dated within 30 days of the event date or the day the employee signed the employee certifications. In the remaining case the letter was signed 68 days after the qualifying event. This case was a worker's compensation claim for an on-the-job-injury and we were told in these cases the letters may be prepared after the fact because their job is already protected.

**We Again Recommend** the County reviews their Family and Medical Leave policy and establishes written procedures to assist department managers and department human resources coordinators in the consistent implementation of the policy in accordance with the Family and Medical Leave Act of 1993 and as prescribed above.

**Management's Response:**

Concur. Comprehensive training on FMLA was conducted with staff in Spring 2007 and specific HR processes have been established. HR Division will continue to work with departments to ensure compliance. This information is included in the FML regulation, the County's Legal issues training, and the FML HR Process.

**11. Formal Amendments to Core Benefit Contracts Are Necessary to Ensure Legally Binding Changes to Contract Definitions and Terms**

Our review of core benefit contracts for the benefits of medical, dental, vision, long-term disability, and life insurances executed for the audit period in our previous audit disclosed the existence of multiple versions of the benefit contracts with differing language, terms, and amendments. We found that the Purchasing and Contracts Division retained the original contracts and then the Division requested changes from the providers of certain inconsistencies in coverage eligibility and contract terms.



The changes were agreed to between the provider representatives and Division staff without the Purchasing and Contracts Division's knowledge and included differences in definitions and terms. Such items included definitions of eligible participants or dependents, limits to the benefit award for a qualifying event, eligibility waiting periods, evidence of insurability and available waivers of providing evidence, and extended coverage for dependents of a reservist.

Subsequent to bringing our concerns to the attention of the Division and the Purchasing and Contract Divisions, properly executed amendments were obtained from the providers.

**We Recommend** the Division coordinates with the Purchasing and Contracts Division and follow established regulations and procedures in the amendment of any contract terms.

**Status:**

Implemented. We compared three of the five current benefit policies along with any amendments obtained from the Human Resources Division to the same policies obtained from Purchasing and Contracts Division and noted no differences.

**12. The Division Should Work to Eliminate Inconsistencies Between Orange County Policy, Benefit Contracts Language and Summarized Benefits Information Disseminated to Employees**

Our review of core benefit contracts for medical, dental, vision, long-term disability, and life insurance executed for the previous audit period disclosed numerous inconsistencies between Orange County Policy, the executed contracts, plan certificates, and the summarized plan information (Beneflex Program Binder) provided to employees. We noted that definitions for eligible dependents varied by the type of benefit coverage, as well

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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as the definitions provided in the plan certificates and the program binder provided to employees. These variations created scenarios where employees were informed they had dependent eligible for certain core benefits when the contract did not allow it. Other inconsistencies in descriptions and/or definitions were also noted. These differences included accelerated life insurance benefits, evidence of insurability requirements, attainment of age, effective dates of coverage and termination, and several other such items.

**We Recommend** the Division coordinates with the County Administrator's Office and the County Attorney's Office to ensure that all policy programs are in compliance with the executed benefit contracts.

**Status:**

Partially Implemented. We found all benefit provider program information to be consistent except the provisions for the date employees insurance coverage ends in the various areas of provider information. The documents contained inconsistencies in specifying exactly which day coverage ended: date employee ceases to be a member; end of the month when eligibility ceases; or end of the pay period in which employment ceases.

**We Again Recommend** the Division coordinates with the County Administrator's Office and the County Attorney's Office to ensure that all policy programs are in compliance with the executed benefit contracts, particularly when a new benefits provider is selected.

**Management's Response:**

Concur. The County's Beneflex Plan is intended to qualify under Section 125 of the Internal Revenue Code as a cafeteria plan. Provisions for benefits provided in this plan are outlined in the Beneflex Plan document most recently updated and approved by the Board of County Commissioners December 20, 2005. Cessation of



participation is defined in Article III, 3.04 of the plan document. This document defines cessation of participation for all benefits plans within the Section 125 cafeteria plan.

**13. Performance Guarantees Contained in Health and Dental Benefits Contracts Should Be Monitored to Ensure Providers Comply with Contract Terms**

During the previous audit period, the Division did not actively monitor or document providers' compliance with the performance guarantees included in the 2001 plan year health benefits contract and the 2002 plan year dental benefits contract. These are customer service incentives to ensure that the County and its employee participants receive a certain level of care and attention to afford the efficient delivery of the benefits. The policy contracts set forth the dollars at risk if the providers fail to meet the performance guarantees.

The 2001 plan year contract for health benefits had 29 performance guarantee measures, with the provider agreeing to place \$100,000 at risk if the measures were not met. The provider noted that only four measures had not been met and computed a monetary award due to the County of \$16,000. The Division did not substantiate the provider's compliance with the measures indicated as met. Our review identified four additional measures that were not met for an additional amount of \$16,000 that could have been owed to the County. The Division Manager and staff indicated that they did not intend to pursue collection of the at-risk dollars for guarantees not met.

**We Recommend** the Division monitor and document providers' compliance or non-compliance with all performance guarantees included in the respective contracts and pursue collection of at-risk dollars for guarantees not met.

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the  
Orange County  
Human Resources Division

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**Status:**

Not Implemented. The performance standards agreement with the health benefits provider for the 2004 calendar year contained six areas with each area containing one to three topics of service for a total of 13 standards. The undated document reporting the results of the performance guarantees for 2004 included the 13 total measures from the agreement. The standard, measurement, amount of money at risk, and whether or not the guarantee was met were noted for each measure. The total at risk dollars were \$50,000. The amount "anticipated" to be credited to future premiums for performance standards not being met was \$4,500. This was attributed to failure to deliver a timely annual Plan Performance Report (\$3,000) and failure to deliver two of the quarterly Customer Service Metrics (\$1,500). Information documenting the report only contained two months of data and, although it indicated the \$4,500 credit had been received, the Division could not locate any information documenting the receipt of this credit. Research performed by the Comptroller's Accounts Payable Section could not confirm the credit for the 2004 premium had been received. The Division later provided an updated report that included data for the entire year obtained from the provider, but this report did not make a note of a credit to future premiums or any other refund information.

**We Again Recommend** the Division monitor and document providers' compliance or non-compliance with all performance guarantees included in the respective contracts, and pursue collection of at-risk dollars for guarantees not met.

**Management's Responses:**

Do not concur. Elimination of this recommendation due to the County's conversion to Self-Funded Medical. There are no longer performance guarantees.



**14. Proper Administration of Benefit Plans Require the Monitoring of Participants' Eligibility**

Our previous review identified certain instances where employees were allowed to participate in benefit plans or receive benefit options although technically ineligible. Seven employees were enrolled for vision benefits during the audit period, although they did not meet the eligibility requirement defining full-time employment as 25 hours per week, as opposed to the County's definition of 20 hours per week.

We also noted one instance in which an employee was allowed to buy up \$10,000 of life insurance coverage while out on leave even though the contract contained an "Active Work" requirement restricting the purchase of additional life insurance when out on leave or not actively at work.

**We Recommend** the Division develops and coordinates procedures to monitor participants' enrollment in benefit programs to ensure participation eligibility.

**Status:**

Implemented. Although a specific eligibility test was not performed, no exceptions regarding an employee's eligibility were noted during our follow-up.

In regards to additional controls implemented, the Division now performs monthly dependent audits. A report is received each month from the PeopleSoft system that lists all employee dependents that have a birthday that month and are in the range of 19-25 years of age. A letter is mailed to each such employee at the first of the month requesting status on the dependent, such as whether the dependent is in school or otherwise dependent on the employee for support. A reminder letter may be mailed and if no response is received by the end of the month, the Payroll Department is notified and the dependent's coverage is dropped. A similar process is performed for dependants that reached 25 years of age the previous year. Also, grandchildren that have reached 18 months of age must have legal documents

that make the employee the guardian or they are removed from the employee's coverage.

The PeopleSoft BenAdmin module, implemented after our previous audit, has eligibility rules defined within the system to help eliminate ineligible members from being added.

**15. When Applicable, Requests for Insurance Coverage Changes Due to Family Status Changes Should Be Submitted with Appropriate Supporting Documentation**

In our previous test of 20 employees requesting a change in insurance coverage outside of the open enrollment period, we noted one instance where the Division had not obtained sufficient documentation to validate the existence of a family status. The County offers an Internal Revenue Code approved benefits "Cafeteria Plan" as defined by Section 125, Cafeteria Plans, of the Internal Revenue Code. This section defines qualifying events that must occur before employees' elections can be changed during a plan year.

**We Recommend** the Division obtains sufficient documentation to support an employee's request to make a qualified benefit election change during the plan year as required by the Internal Revenue Code Section 125.

**Status:**

Implemented. We selected a sample of ten Beneflex Change forms that were submitted during the audit period, exclusive of open enrollment. We verified the change was for a qualifying event and was adequately documented. No exceptions were noted.

**16. The Division Should Monitor Life and Long-term Disability Insurance Claims**

We noted during the prior audit that unless there is a special request for review or assistance from the claimant, the Division did not generally track or monitor claims for long-term disability or life insurance benefits before or after payment of the claims. The two policies are “self-administered” and the provider does not keep detailed records of employee participants. The providers depend upon the employer completing portions of the claims request form prior to determining the validity of the employee’s claim.

Our review of long-term disability claims paid during the previous audit identified various exceptions. One employee received payments from both providers for the claims submitted for the same qualifying event. In another situation, a deceased employee’s beneficiaries were not informed of death benefits available through the long-term disability coverage the employee was receiving. We also noted that documentation was not available to adequately support the notification of employees receiving long-term disability benefits of options and enrollment in “Continued Life Insurance.”

**We Recommend** the Division establishes procedures to routinely monitor processing of claims and paid claims ensuring the documentation of notifications given to employees placed on long term disability coverage of the available options to continue life insurance, and verifying claims eligibility and benefits paid.

**Status:**

Implemented. The Division now maintains a spreadsheet on both the life and long-term disability claims. All death claims are administered through their office by filing the insurance company’s Proof of Death Claim Form when a death certificate becomes available. For disability claims, employees can access claim forms on the County Intranet and file with information provided by the Comptroller’s

Payroll Department. The Division tracks these claims from claim reports and other documentation provided by the provider. There were six life claims paid and 23 disability claims approved during the audit period. We selected a sample of two life and five disability claims and reviewed documentation on file and verified the accuracy of the spreadsheet maintained. No exceptions were noted.

**17. The Division Should Monitor Supplemental Insurance Providers' Enrollment Activities and Financial Ratings**

During the prior audit we noted that, contrary to Orange County Administrative Regulation 7.03.02, (II), the Division did not develop enrollment procedures to govern the activities of supplemental insurance providers, nor did the Division monitor the actual enrollment practices of the providers. Further, the Division did not routinely monitor the financial ratings of the supplemental insurance providers.

**We Recommend** the Division complies with Orange County Administrative Regulation 7.03.02, (II) by establishing and implementing monitoring procedures to ensure supplemental insurance providers use appropriate marketing and enrollment procedures, and maintain financial ratings.

**Status:**

Not Applicable. Effective with the 2004 benefits year, voluntary supplemental insurance was no longer available due to declining financial ratings of the companies offering these benefits. For those employees who were previously enrolled, the County still deducts their premiums and will continue to as long as the companies' rating do not continue to decline. The County's benefits consultant monitors these provider's financial ratings and reports to the Division on a regular basis.

**18. Budgetary Performance Measure Goals Based on Objective Analytical Methods Need to Be Established and Utilized**

The Division established numerous performance measures to help assess whether they met their objectives for the four fiscal years ending in 2003. We noted an objective, analytical approach was not used to set performance measure goals. In addition, the Division did not document procedures or data used in developing performance measure targets, which were described as an average of the prior years actual. Our review indicated, although the actual numbers have increased yearly, the targets have remained fairly stagnant and the Division regularly exceeded several of their targets.

**We Recommend** the Division utilizes objective analytical methods to forecast performance measure goals.

**Status:**

Partially Implemented. Although the Division does not currently use an objective analytical method to forecast the performance measure goals at this time, they have both set and updated their objectives based on experience. They determined that relying on a regression analysis for some of the measures proved inadequate, particularly as it related to the underlying business forecast. It was decided in those areas a more fundamental, rather than technical approach, was employed. Although a standard or formal method to forecast these goals is not being used at this time, it will be incorporated during the upcoming 2006-07 budget year.

**We Again Recommend** the Division utilizes objective analytical methods to forecast performance measure goals.

**Management's Response:**

Concur. Objective and meaningful measures were established for FY 06-07.

**19. Appropriate Data Should Be Used in Reporting Performance Measures**

One of the performance measures reported by the Division during our initial review was the number of employment offers extended, but the data reported for this performance measure only included those offers in which the candidate accepts the offer and clears final background and medical screenings.

**We Recommend** the County reviews the performance measures selected for the Division, and ensures that the data reported is an appropriate measure to track and use in evaluation of the Division's operational efficiency and effectiveness.

**Status:**

Implemented. Based on our review, it appears the County has reviewed performance measures selected for the Division and ensured the data reported is an appropriate measure to track and use in evaluation of the Division's operational efficiency and effectiveness.