

# **Audit of the Orange County Human Resources Division**

**Report by the  
Office of County Comptroller**

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**Report No. 345  
April 2004**

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April 29, 2004

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

We have conducted an audit of the Orange County Human Resources Division (the Division). The audit was limited to a review of the compensation and benefits programs developed and administered by the Division. The period audited was the year ended March 31, 2002 and certain subsequent transactions. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

Responses to our Recommendations for Improvement were received on February 23, 2004 from the Human Resources Division Manager and are incorporated herein.

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  
Ricardo Daye, Manager, Human Resources Division

# EXECUTIVE SUMMARY

## Executive Summary

We conducted an audit of the Orange County Human Resources Division (the Division). The period audited was the year ended March 31, 2002 as well as certain subsequent events and transactions. The scope of our audit was limited to a review of compensation and benefits programs administered and developed through the Human Resources Division.

The objectives of the audit were threefold. The first objective was to determine whether the Division complied with Federal, State and local laws, regulations, policies and contracts as they relate to compensation and benefits programs. The second objective was to determine whether compensation and benefits programs were adequately operated and administered. Our final objective was to determine if established performance goals were consistent with the mission statement of Orange County; and if such performance goals were met.

The audit was conducted in accordance with generally accepted governmental audit standards and included such tests as we deemed necessary in the circumstances. Based upon the results of our testing, the Division substantially complied with the requirements of Federal, State, and local laws; regulations; policies; and contracts relating to compensation and benefits programs. In addition, performance goals were consistent with the mission statement and the Division's actual performance met established goals. In our opinion, the Division adequately administered and operated compensation and benefit programs. However, we found many areas where controls need to be strengthened. In conjunction with the continued decentralization of the Division's functions, increased monitoring of departments' trends and actions related to human resources services will be necessary to ensure adequate controls over salary administration and the size of the work force. In addition, increased monitoring will help ensure that employees are provided fair and equitable access to benefits.

Opportunities for improvement were noted and are described herein. Significant concerns identified in the audit period related to:

- Dissemination of current written policies and procedures;
- Controls over salary administration and position control, including documentation of transactions;
- Proper benefits contract change/amendment procedures;
- Monitoring of benefit contracts' performance guarantees;
- Monitoring and documentation of participant eligibility and claims; and,
- Objectively and analytically setting performance goals.

The Division concurred or partially concurred with all Recommendations for Improvement. The Division reports corrective action as completed, planned, or underway as noted herein.

# ACTION PLAN

Audit of the Orange County Human Resources Division  
Action Plan

| NO. | RECOMMENDATIONS  | MANAGEMENT RESPONSE |                  |               | IMPLEMENTATION STATUS |         |
|-----|--|---------------------|------------------|---------------|-----------------------|---------|
|     |  | CONCUR              | PARTIALLY CONCUR | DO NOT CONCUR | UNDERWAY              | PLANNED |
| 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.  | ✓                   |                  |               | Completed             |         |
| 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.   |                     | ✓                |               | ✓                     |         |

Audit of the Orange County Human Resources Division  
Action Plan

| NO.   | RECOMMENDATIONS   | MANAGEMENT RESPONSE |                  |               | IMPLEMENTATION STATUS |         |
|-------|---|---------------------|------------------|---------------|-----------------------|---------|
|       |   | CONCUR              | PARTIALLY CONCUR | DO NOT CONCUR | UNDERWAY              | PLANNED |
| 3. 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. | ✓                   |                  |               | Completed             |         |
| 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.   | ✓                   |                  |               | Completed             |         |
| 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.   | ✓                   |                  |               | ✓                     |         |
| 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.  | ✓                   |                  |               | Completed             |         |
| 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  |                     | ✓                |               |                       | ✓       |



Audit of the Orange County Human Resources Division  
Action Plan

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|-----|--|---------------------|------------------|---------------|-----------------------|---------|
|     |  | CONCUR              | PARTIALLY CONCUR | DO NOT CONCUR | UNDERWAY              | PLANNED |
|     | 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;   | ✓                   |                  |               | Completed             |         |
| 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, | ✓                   |                  |               | Completed             |         |
| C)  | Maintenance of adequate documentation to support the award of leave bank benefits to an employee.  | ✓                   |                  |               | Completed             |         |
| 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;   | ✓                   |                  |               | Completed             |         |
| 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,   | ✓                   |                  |               |                       | ✓       |

Audit of the Orange County Human Resources Division  
Action Plan

| NO.    | RECOMMENDATIONS  | MANAGEMENT RESPONSE |                  |               | IMPLEMENTATION STATUS |         |
|--------|--|---------------------|------------------|---------------|-----------------------|---------|
|        |  | CONCUR              | PARTIALLY CONCUR | DO NOT CONCUR | UNDERWAY              | PLANNED |
| 10. C) | Specific time periods, within which the HR Coordinators are to issue written notification approval or denial of FML designations of absences.  | ✓                   |                  |               | Completed             |         |
| 11.    | We recommend the Division coordinates with the Purchasing Department and follow established regulations and procedures in the amendment of any contract terms.   | ✓                   |                  |               | Completed             |         |
| 12.    | We recommend the Division coordinates with County Administration and the County's Legal Department 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.   | ✓                   |                  |               | Completed             |         |
| 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. |                     | ✓                |               | ✓                     |         |

Audit of the Orange County Human Resources Division  
Action Plan

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|-----|--|---------------------|------------------|---------------|-----------------------|---------|
|     |  | CONCUR              | PARTIALLY CONCUR | DO NOT CONCUR | UNDERWAY              | PLANNED |
| 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.  | ✓                   |                  |               | Completed             |         |

# INTRODUCTION

**Background**

The Human Resources Division's (the Division) mission statement "...is to enhance the productivity, performance and overall quality of work-life for Orange County's employees through the research, strategic development and implementation of cost-effective human resource policies, systems, programs, and practices."

The Division is responsible for assisting all operating departments under the Board of County Commissioners (the Board) and certain Constitutional Offices in the delivery of personnel services. The Division is charged with the development and establishment of a competitive pay system for all employee categories of the Board. The coordination and facilitation of benefits, employee records, and maintenance of the human resources information system is also administered through the Division.

The Division handles employee recruitment, training, and development. It is also responsible for planning, organizing, and directing negotiations with labor bargaining units pursuant to laws and ordinances governing work, working conditions, benefits, wages, and salaries. Other tasks include the development and implementation of position control procedures so that only authorized positions are created, and qualified individuals are hired to fill the positions.

The County has approximately 7,000 employees. Over 2,900 job positions are covered by one of four bargaining unit agreements that the County has entered into with the Fraternal Order of Police (FOP), the International Association of Fire Fighters (IAFF), the Laborers' International Union of North America (LIUNA), and the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME).

In 1997, the Division recommended and the Board approved for non-union employees a compensation plan referred to as the "Broadband Pay Plan". After that plan's implementation, an evaluation of the Broadband Pay Plan by the Division determined that the plan was difficult to manage and administration of the plan was not cost effective. The

evaluation led to the return of a traditional pay plan. The Board approved the new plan with an effective date of September 30, 2001.

The Division is charged with the administration of the Employee Benefits Program, which provides core benefits of health; dental; vision; long term disability; and life, accidental death and dismemberment coverage through conventional insurance plans offered through the County's Beneflex Plan. The Beneflex Plan is an Internal Revenue Service approved Section 125, IRC "cafeteria plan" that provides employees with an election to purchase and receive certain health, dental, vision, and life insurance with pre-tax dollars. A cafeteria plan allows the costs of the employees' premium deductions to not be included in the employees' taxable gross wages. Supplemental insurance coverage is also offered to employees, but these are not included in the cafeteria plan and must be purchased with after tax dollars.

The County also provides for participation in an Employee Leave Bank. The Employee Leave Bank program is designed to provide participating employees with additional leave credits in the event of personal catastrophic illness and/or accident.

The Division utilizes the PeopleSoft Human Resources Management System to maintain employment transaction records. The Human Resources Division controls access to the database's tables related to position management data.

The Division had 52 authorized positions and a budget of \$6,097,371 for the fiscal year ended September 30, 2003.

**Scope, Objectives,  
and Methodology**

The audit was limited to a review of the compensation and benefits programs administered and developed through the Human Resources Division. Our audit period was the year ended March 31, 2002. In addition, we reviewed certain subsequent events and transactions.

The objectives of the audit were to determine whether the Division:

- Complied with Federal, State, and local laws; regulations; policies; and contracts as they relate to compensation and benefits programs;
- Adequately administered and operated compensation and benefits programs; and,
- Established performance goals consistent with the mission statement of Orange County and met the established goals.

To determine compliance with Federal, State, and local laws; regulations; and policies regarding compensation and benefits, we obtained and reviewed applicable provisions of the Federal Fair Labor Standards Act, Internal Revenue Code Section 125 (Benefits Cafeteria Plans), Health Insurance Portability and Accountability Act of 1996, and State statutes on public employees and insurance providers. We compared these laws to the Orange County Code, Administrative Regulations and Personnel Policy Manual, and the Employee Handbook. We also tested a sample of personnel transactions to ensure that procedures were in place implementing the policies related to provision and termination of benefits.

We interviewed Division staff to determine procedures for the establishment and approval of compensation and pay plans for employees. We obtained evidence of the plans' approval by reviewing the official minutes of the Board of County Commissioner's meetings. We analyzed the personnel records, and used PeopleSoft database queries to test a sample of employees' actual pay to determine that they were compensated in accordance with their job description and approved pay plan. We analyzed position control procedures to determine their adequacy to ensure that only properly authorized and budgeted positions were created and filled.

To determine that the Division adequately administered and operated the benefits programs, we reviewed the procurement, enrollment, and claims administration

processes. To gain an understanding of the benefits procurement process, we interviewed the Division staff, Purchasing Department staff, and members of the Employee Benefits Committee. We verified the validation and resolution of benefit contract performance guarantees. We sampled employee records to ensure that individuals were eligible for and received only those benefits that were requested. We confirmed with insurance providers the termination of benefits for a sample of employees, and reviewed a sample of employees' eligibility for claims related to long-term disability, accidental death and dismemberment, and death benefits. The review of the Deferred Compensation 457(B) benefit plan was limited to a review of the procurement process in the selection of providers (which was conducted prior to the audit period).

To determine that the performance goals established by the Division were consistent with the mission statement of Orange County and that the Division's actual performance met established goals, we reviewed the various measures maintained by the Division, compared them to the County's mission statement, and surveyed six other Florida counties of a comparable size to Orange County. We then analyzed reported actual performance to the performance goals.

The scope of our audit did not include an examination of Worker Compensation Benefits. We did not conduct a review of recruitment or training operations of the Division. We did not review negotiations of bargaining unit agreements or conduct a detailed analysis of the existing compensation contracts. We did not conduct a review of department staffing levels. We did not perform a comprehensive review of the operations of the Human Resources Information Systems Unit or of the PeopleSoft software application database.

**Overall Evaluation**

Based upon the results of our testing, the Division substantially complied with the requirements of Federal, State, and local laws; regulations; policies; and contracts relating to compensation and benefits programs. In addition,



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## INTRODUCTION



Audit of the  
Human Resources Division

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performance goals were consistent with the mission statement and the Division's actual performance met established goals. In our opinion, the Division adequately administered and operated compensation and benefit programs. However, opportunities for improvement were noted and are described herein.

# 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 for the fiscal year 2001-2002 did not include four salary grades utilized for casual labor and State Agricultural Cooperative Extension Services positions. This accounted for approximately 12 percent (825 employees) of the work force. Orange County Code, Part II, Chapter 17, Article I, §17.8 Procedures for Drawing, Issuing County Warrants refers to payroll disbursements and provides for wages to be paid if the employment and rates of pay have been previously approved by the Board. Also, the Compensation Plan submitted to the Board referred to above contained mathematical errors in the amounts shown for the minimum pay in two salary grades.

We understand that many different functions are handled by the casual labor designation. However, it is possible to classify the duties performed and establish salary grades commensurate with the type of labor or services provided by the position. This would be beneficial in determining whether positions should be upgraded from a temporary position with no benefits to a regular full/part-time position with benefits.

The pay plan approved by the Board for the fiscal year ending September 30, 2004 did not include those four salary grades utilized for various casual labor and State Agricultural Cooperative Extension Services 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.

**Management's Response:**

Partially concur. The decision to establish pay grades for temporary employees and classify within them casual, on-call and student intern positions is pending further review with County Administration. In the event that these pay grades are established, they will be submitted to the BCC for approval.

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

The annual 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. Relating to this, we had the following concerns:

- A) Personnel files recording an employee's complete compensation history, with appropriate documentation of performance and any resultant actions of promotion or salary increases/decreases are not maintained in the Division. Preparation of performance evaluations is the responsibility of an employee's supervisor. However, unless formally delegated, the Division has the responsibility of maintaining centralized, complete, and accurate personnel records for all employees and departments.

- B) The Division does not have adequate assurance that wage increases awarded to employees were proper. The Division should require written positive confirmation from the Division Manager to confirm that the increase was appropriate and authorized.

Complete personnel records can help minimize the risk of individuals or bargaining units contesting compensation received.

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

**Management's Response:**

Partially concur. The BCC approves and authorizes annual salary adjustment guidelines for all employee groups. These guidelines can be found in the Regular Employee Pay Plan policy or the respective bargaining unit agreement. Annual increases are automated to the fullest extent to reduce the cost of processing, imaging and filing approximately 6,500 individual documents. To ensure that wage increases awarded are proper and in accordance to BCC approved guidelines, two full audits are conducted. The first audit takes place in a HRMS database devoted solely for testing. The purposes of this audit are to:

- 1) Validate and confirm that the computer program scripts used to execute the increases do not adversely impact the proper functioning of the County's HRMS; and,
- 2) Confirm that new compensation rates are correctly calculated.

The second audit takes place in the HRMS production database and occurs after the computer scripts have been applied on affected employee records. The purpose of the second audit is to verify that the new compensation rates are correctly calculated following the appropriate salary increase guideline.

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## RECOMMENDATIONS FOR IMPROVEMENT



The approach used for each audit is as follows:

- 1) Using MS Excel, HR/Compensation calculates salary adjustments for each employee before the computer scripts are applied;
- 2) HRIS validates HR/Compensation's calculations and compares them against the compensation rates generated by the computer scripts; and,
- 3) Payroll performs a separate review and communicates discrepancies, if any.

To be eligible for the annual salary adjustment employees must be meeting satisfactory performance standards. Employees are considered to be meeting performance standards unless formal documentation is provided to document an employee's less-than-satisfactory performance. This documentation is required to insure the appropriate employee(s) do not receive the adjustment.

HRIS maintains computer files of BCC approved annual salary adjustment procedures for all employee groups for each fiscal year. In an effort to keep complete records of approvals and procedures, HRIS will maintain binders containing a paper trail of relevant annual salary adjustment documents starting in FY '04-05. These binders will be properly labeled and centrally located along with other important HR Division records.

Paper records will include:

- 1) BCC-approval and authorization of salary adjustment guidelines per employee group;
- 2) Computer script specifications provided to ISS;
- 3) A paper report listing all employees receiving the annual salary adjustment;
- 4) A paper report listing employees not eligible due to less than satisfactory performance, already above

maximum for pay grade or ineligible due to service date; and,

- 5) A paper report listing employees whose annual salary adjustments are handled manually, such as lump sums and employees on acting pay (in addition to the paper report, ECNs are generated, processed and imaged) and other miscellaneous reasons.

Documentation for all other salary changes will continue to be maintained in individual employee records via ECN.

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

Position control is the term used to describe the procedures and tools utilized to prevent unauthorized positions from being created and filled, which would increase payroll and related benefit expenditures. During the audit period we found that the position control system for the County could be enhanced.

The PeopleSoft Human Resources Management System software application is the official database that records all positions. The database records:

- Positions and assigns a position's number;
- Job codes and titles;
- The assignment of a position number to a job code;
- The assignment of employee identification numbers; and,
- The assignment of employees to positions.

Our review identified the following areas where procedures utilized during the audit period could be improved to provide increased position control:

- A) During the audit period, we found that department managers submit for 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 OMB. The recently approved procedures delegate all authority for the reclassifications and increases in work force to the department directors. This procedure does not take advantage of a human resources department's knowledge and expertise in the evaluation of staffing measures, job functions, associated wage benchmarks, and countywide consistency for the various position requests. Department requests for additional positions or reclassifications (increase in force) should be reviewed and evaluated by the Division.

- 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. (For position reclassifications, the Compensation Analysts does retain the original spreadsheet evidencing the Division Manager's and the County Administrator's approvals.)

The likelihood of errors or omissions is increased when individuals responsible for the data entry and creation of records in a database are provided with non-standard procedures and forms of communication (see also Recommendation for Improvement No. 4).

- C) OMB utilizes information from the PeopleSoft database as the basis for determining the total number of existing approved positions at a certain date when preparing the biennial budget. OMB did not independently reconcile the number of positions authorized at the start of one biennial budget period to



those entered into the PeopleSoft database during that two-year period. OMB does not maintain independent detailed records of assigned positions and job codes by department.

Each bi-weekly pay period, departments are provided staffing reports (referred to as manning tables) generated from the PeopleSoft database. The Division assumes that department managers or staff will review and report any exceptions noted. This decentralized monitoring and management of staffing levels weakens position control.

- D) The Division had not implemented a control of a unique position number for each employee. For instance, on August 26, 2002, we noted 64 position numbers filled by 303 individuals. The Division had programmed the People Soft System to provide a warning message when the number of employees assigned to the position number exceeded the maximum number allowed. However, during our testing of the 64 positions, we found three positions were filled with more than the maximum limit recorded for the position. Further, maximum limits were not recorded for 57 of these positions (although we were informed that the system defaults to a limit of one employee per position number). The PeopleSoft application has programmed controls that could be engaged to limit the number of individuals assigned to a specific position number. However, that capability was not utilized in the County's implementation of the PeopleSoft application.
- 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. All positions are coded as approved. The use of such status indicators and implementation of a workflow approval process could enhance the documentation of position control by providing an electronic trail of approvals.

Procedures should be established to ensure adequate position control.

**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 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.

**Management's Response:**

- A) Concur. HR Compensation reviews all reclassification requests prior to approval. The Human Resources Manager has the authority to

approve reclassifications for Regular Employee Pay Plan and Bargaining Unit positions. The County Administrator has the authority to approve reclassifications for Administrative Pay Plan and Chairman / Board of County Commissioner (900 and 200 Series) positions. Departments have been instructed to submit reclassifications requested outside of the budget process to the County Administrator prior to forwarding to HR for review and recommendation. The CA will approve HR Compensation's review of the reclassification request. Only after HR Compensation's analysis and recommendation, however, is the reclassification itself approved.

Increases in force authorized during the budget process are also reviewed and evaluated by the HR Compensation prior to approval. A process is being developed to review requests for increase in force that occur outside of the budget process. Management and the HR Strategy Team will review the proposed process before it is finalized and implemented. Steps in the process will include complete documentation of the request, such as justification memo, OMB Form 2, OMB review, and date-stamped BCC approval. It will be the responsibility of the requesting department to submit a complete documentation package to HR prior to Board approval.

- B) Concur. Procedures are currently in place. Once a new or reclassified position has been evaluated by HR Compensation and its pay level approved by the HR Manager, a formal memo and spreadsheet with position, job classification and pay level information is created confirming the position's appropriate level. HR/Compensation memos documenting position reclassifications and increases in force are used by HRIS to justify and document the position change.
- C) Partially concur. We concur with the spirit of the recommendation that the process for maintaining and

updating the County's manning table should include independent reviews and verifications to ensure that all positions have been properly authorized. We believe that our current process, however, does include these independent reviews and verifications. To illustrate, at the start of the budget process every year in February, the Office of Management and Budget (OMB) obtains a download from the PeopleSoft system which is used to reconcile all positions by department/division to the approved budget book. Any discrepancies from the budget book, due to changes approved by the BCC between October and February, are researched and verified. The PeopleSoft system is not used as a basis for determining the number of authorized positions. Rather, PeopleSoft data is used to track and verify changes to the manning table. Once the PeopleSoft system is reconciled, it then becomes the basis for the next budget process. During the budget process, requested changes to the manning table for the ensuing fiscal year are either approved or not by the BCC. Prior to the start of each fiscal year, OMB provides Human Resources with a written confirmation of all the changes to the manning table that were approved by the BCC. After Human Resources receives this information, they reconcile total positions in the system with annual budget data provided by OMB for all positions budgeted and authorized for each department. Human Resources then provides information to OMB and each County department's fiscal office after positions are updated in October of each year. Staffing budgets are not approved by division/by job code; therefore, it is not possible to reconcile in that manner. HRIS does not enter 'unbudgeted or proposed' positions in the system, and County departments are not allowed to hire a County employee unless there is an authorized position in the PeopleSoft system.

- D) Concur. HRIS has assigned each position a unique number (on a 1:1 basis) since the audit was conducted. The few exceptions to this are the bona

vide job share; temporary dual encumbrances; or regular part-time positions authorized for two incumbents. Exceptions are documented via memorandum sent to the HR Manager from the requesting division through OMB. This flexibility is required to meet business needs. Therefore, “hard” controls cannot be established. Audits are conducted regularly to ensure compliance.

- E) Concur. Traditional paper trails generated by HR/Compensation are currently used. HRIS utilizes this documentation as justification to reclassify or create new positions in the system. Human Resources does not enter or track positions that are not budgeted and authorized.

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

Procedures require that new positions added to the workforce include a Change in Authorized Positions form accompanied by a memo from the department manager requesting and justifying the position; a job classification analysis; and approval from the Division Manager, the County Administrator, and the Board. Procedures for the reclassification of an existing position require submission of various documents to support the reclassification.

During our review, 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. Our review found the following:

- The Division did not retain documentation of the County Administrator’s and the Board’s approval for any of the ten new positions.

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- The Division was unable to provide a copy of the department managers' memos requesting and summarizing justification for any of the ten added positions.
- Job classification analyses were unavailable to support position classifications in eight of the ten positions.
- Evidence of the Division Manager's approval of the position was missing in three of the ten positions.
- Change in Authorized Positions forms were unavailable to support position additions in two of the ten positions.

Similar instances of missing documentation were noted in our test of reclassified positions as well.

Position control procedures should require appropriate evidence (of the approval and authorization to add or reclassify a position) be retained by a centralized human resources function. In one instance, the position was entered into the PeopleSoft database after receiving a draft copy of a Board agenda item from the requesting department. However, the data was changed on the actual agenda item submitted and approved by the Board. Therefore, the position information entered into PeopleSoft database did not agree with the position information approved by the Board. Maintaining the required supporting documents would help prevent this from occurring.

**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.

### **Management's Response:**

Concur. Procedures are currently in place. There are tight controls on the reclassification process because of its effect on existing positions. Once a reclassified position has been

evaluated by HR Compensation and its pay level approved by the HR Manager, a formal memo and spreadsheet with position, job classification and pay level information is created confirming the position's appropriate level. HR Compensation memos documenting position reclassifications and increases in force are used by HRIS to justify and document the position change.

New positions oftentimes get BCC approval first then are forwarded to HR Compensation, usually without a memo, and in bulk. Documentation of this exists with the request being on the agenda and the minutes that reflect BCC approval.

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

We interviewed staff members in the Division and the Office of Management and Budget to determine procedures used in the audit period, and reviewed the existing Personnel Policy Manual, the Personnel Procedures Manual, the Budget Reference Manual and the Position Reclassification Procedure found on the Orange County Intranet site. From these sources we determined that the procedures published in the Human Resources Procedures Manual were not up to date.

For instance, the procedure included in Section 3 Classification and Compensation, page 3.1 of the Human Resources Procedures Manual, called for the Position Analysis Questionnaire (initiated and completed by the Departmental Manager) to be reviewed by the Job Evaluation Committee. We found that the Job Evaluation Committee had been disbanded in 1995.

The Division published revised procedures on the County Intranet for managers to follow in requesting the reclassification of existing positions. The new procedure calls for the documentation of the various levels of approval necessary for the creation of a new position or the reclassification of an existing position.

We also found that the Division is not the sole authority in extending formal employment offers to candidates; however, Orange County Procedures Manual in Section 1, page 1.4a, Process Step 8 requires that the Division will “notify the candidate selected by the supervisor for the position.”

Providing up to date written procedures is essential in effectively and efficiently administering human resource services. Timely updating, documenting, and monitoring procedures ensures the standardized processing of transactions and reduces the risk of unauthorized transactions entering the system undetected.

The Board approved the revised Orange County Policy Manual and Operational Regulations on December 16, 2003. The formally adopted policies and regulations broadly address position reclassifications as well as hiring authority. However, the policies and regulations are not clear as to the actual procedures or evidence required to document such transactions.

**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.

**Management’s Response:**

Concur. The BCC policy, to be implemented April 11, 2004, will include Operational Regulations. Operational Regulations replace Procedures and as policy is updated, will be revised. There will be only one document.

While the current procedures used to address position reclassifications have not been included in the policy document (approved December 16, 2003), it has been developed. The County Administrator has reviewed and authorized these procedures and training has been provided. Future policy revisions will include these procedures.



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

During our review, we found 43 regular class jobs (out of approximately 750) that did not have written job descriptions as of January 2003. A job description is a tool that is useful in evaluating both job candidates as well as employees' minimum qualifications for performing a job and establishes performance standards for the position. If job descriptions are not available for open or filled positions, it becomes difficult for managers, employees and candidates to determine the eligibility requirements and performance standards.

In addition, we selected 60 employees to test whether the employee met the minimum qualifications required in the job description. We noted the following:

- One instance where the incumbent employee did not meet the minimum required job description. After our inquiry, the minimum job requirements were lowered so that the employee now meets the minimum requirements. The employee's personnel file did not contain documentation exempting the employee from meeting the required minimums.
- One instance where an employee's position and job title were changed due to a collective bargaining unit contract. At the time of our fieldwork Division staff informed us that the revised job description for the newly created position had not been filed (but was in the process of being prepared by the employee's Department). Further, the Division stated that it was normal procedure to continue to use the old job description until a new one was filed.

Currently, it is the department managers' responsibility to submit a written description of the job to the Division for approval. However, there is not an established time period in which new or amended job descriptions must be submitted and approved prior to the use of the job title and filling of the related position.

**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.

**Management's Response:**

Concur. Human Resources Compensation will work with Department HR Coordinators this fiscal year to develop job descriptions for all job classifications for which a job description is not on file, and to update those job descriptions identified by Departments as most in need of updating.

It is agreed that individuals must meet the minimum qualifications for a job in order to be hired, promoted or transferred. All job postings created by HR state the minimum qualifications of the job. These qualifications are taken from the job description. Recruiters screen all applications for minimum qualifications, and applicants that do not meet the minimum qualifications for the job are not forwarded to the hiring authority for consideration. In exceptional circumstances, individuals that do not meet minimum qualifications may be placed into a position in either an "underslotted" capacity or as a trainee. Guidelines for placing employees in a trainee status are outlined in the Regular Employee pay plan.

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

The County did not select its current three Deferred Compensation Plan providers through a formal competitive procurement process. The County entered into agreements with the three providers to offer the benefits pursuant to Section 457 of the Internal Revenue Code in 1977, 1983 and 1989. Since then, the County has allowed employees to

participate in the deferral of taxable wages through these plans.

The purpose of using a competitive procurement process to select providers is to ensure that employees receive benefit opportunities and services that are commensurate to the fees charged by the providers. Formal competitive procurement processes include the use of request for proposal (RFP) procedures designed to award the best qualified firm, or an invitation for bid procedure designed to award the lowest priced, capable firm meeting specifications.

Our survey of six other Florida counties offering employees deferred compensation plans indicated that one county offered a greater selection of providers, one offered the same number of providers, four of the six counties offered fewer providers, and two of the four only offered employees one provider.

In the National Association of Government Defined Contribution Administrator's *2001 Survey of 457 Plans*, Orange County responded that participants are subject to the following fees: asset fee, surrender charges, flat annual fees, and transaction charges. Only one other local government plan was subject to surrender charges, four to transaction charges, while 15 others were subject to a flat annual fee.

The Survey also reported that 82 percent of the local governments and 72 percent of the state respondents review their products and go out for bid every three years.

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

**Management's Response:**

Partially concur. The decision to initiate a competitive procurement process to consider and select Deferred Compensation Plan Providers is pending further review by the County Administrator.

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

The Orange County Code of Ordinances establishes the authority for the County to offer employees the benefit of deferred compensation plans. The current Deferred Compensation Plan contains procedures for the administration of the benefit through the use of a multi-agency Advisory Council. The composition of the Advisory Council is specifically defined to be composed of seven employee-members, with one member appointed by the Board and one each by the Sheriff, Clerk of Courts, Property Appraiser, Tax Collector, Comptroller, and the Supervisor of Elections. When revisions to the County Charter restored the Constitutional powers of the other elected officials, the Sheriff established separate plans for his employees. Also, 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.

**Management's Response:**

Partially concur. The decision to amend or otherwise make changes in Plan participation and administrative requirements is pending further review by the County Administrator.

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

Our review 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. Through the Leave Bank,

income may be provided to Regular, Executive, and Chairman/Commission staff employees who are participants in the bank, and who experience a personal catastrophic illness or injury requiring an extended absence from work which depletes the employee's personal compensated leave balances. We identified the following conditions:

- A) In September 2002, our review of the official "master" copy of the Orange County Personnel Manual maintained by the Division, noted that Section 4 Employee Benefits – Leave Bank, adopted by the Board on March 18, 1997, was not included. The Division's staff was unable to locate a copy of this section, although we were able to locate a copy misfiled in an archived binder of rescinded and/or amended policies. Our research indicates that this policy had never been rescinded. However, the Division had not included the section in policy manuals distributed to departments during our audit period. Further, our review of these procedures noted some inconsistencies between the procedures, and actual usage. Subsequent to the audit period, the Board adopted a new Policy Manual and Operational Regulations rescinding all previous policies. The new document contains provisions for Leave Bank. Access to the authorizing documentation and effective policies are essential to appropriately administer a benefits program.
  
- B) We noted seven discrepancies between the actual leave taken by an employee participating in the leave bank and the leave recorded on the Division staff's tracking spreadsheets. The tracking spreadsheets are used to determine the fund balance and the number of hours approved for a specific employee. In addition to these discrepancies, we found two Leave Bank participants received benefits in excess of the 320-hour per benefit year maximum. A total of 63 excess hours, combined for the two individuals, was granted at a total cost to the County of \$1,007. The Division does not reconcile these logs.

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- C) 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. Published procedures distributed to employees require "Employee must obtain a letter from a physician describing illness/injury, prognosis for recovery, restrictions, and next follow-up appointment." to be submitted with the requests for withdrawals.

Procedures and requirements should be followed to ensure the equitable award of leave bank benefits.

**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.

**Management's Response:**

- A) Concur. The approved new policy manual effective April 2004 includes the Leave Bank Program and will be readily accessible to all departments and employees.
- B) Concur. Human error had occurred in the two cases noted during the audit. As an additional safeguard HR has incorporated an additional person to review and reconcile Leave Bank committee records with payroll records as approvals are recorded.

- C) Concur. This has always been the process. There is a handout, which provides employees and physicians suggestions for what to include in the physician documentation, however they are simply suggestions. The committee bases decisions on the medical documentation provided and if the information supports catastrophic illness/injury a case can be approved. All documentation for approvals is maintained for all cases. A nurse has been added to the Leave Bank committee as a non-voting member. The role of the nurse is to provide clarification and/or explanation of medical terms.

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

Our review of the Division's administration and monitoring of Family and Medical Leave (FML) benefits disclosed policies and procedures that need to be strengthened. The County, subsequent to the audit period, revised the FML policy and procedures; however, several of the weaknesses identified during our audit did not appear to be resolved with the implementation of the new policy.

- A) During the audit period, the Division was responsible for the centralized granting and administering Family and Medical Leave benefits. However, the Division did not maintain records of the actual FML hours taken by the employees and did not provide for the monitoring of the total hours reported through payroll transmittal records (including spouses working within the County). Both the Division's staff and Comptroller's Payroll Division's staff indicated that it was the employees' department manager's responsibility to track employee usage. Although the Comptroller's Payroll Division stated that reports were available upon request, department managers were not routinely provided cumulative reports of employee's total calendar year to date FML hours taken.

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- B) The Division did not document verification of employees meeting the County's eligibility requirement to receive FML. The employee must work a minimum of 1,250 hours in the 12 months prior to requesting FML leave. The recently published forms (as well as the previous forms) do not include a space to record this information.
  
- 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. County procedures require these forms to be completed within this prescribed time period.

The revised Family and Medical Leave Policy adopted by the Board on December 16, 2003, addressed certain aspects of the conditions cited above, but did not resolve all concerns.

The FML application forms available to department managers and employees do not include instructions to department managers on the procedures to document and verify an employee's eligibility and compliance with the requirement that 1,250 hours are worked in the twelve-month period preceding the request. The policy and the forms do not identify the applicable maximum total number of FML hours within the 12-week job protection period. Most payroll and leave reports are provided by hours worked and hours of leave taken. The bi-weekly payroll registers received by the department managers do not show accumulated leave hours. Although special queries are available to obtain the information, our review did not indicate that the information or procedures are readily available to department managers.

The current policy also does 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 Payroll Department. If timely notice is not provided, the absence cannot be retroactively designated as FML and applied to the 12-week job protection period. The 12-week



job protection period is meant to protect employees as well as employers. Employee absenteeism affects employer operations, and the Family and Medical Leave Act of 1993 is meant to provide protection to both employee and employer. The employer limits their recourse if documentation does not evidence the designation of leave as FML.

**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,
- C) Specific time periods, within which the HR Coordinators are to issue written notification approval or denial of FML designations of absences.

**Management's Response:**

- A) Concur. With the de-centralization of FML, HR Coordinators in the field have been provided with a spreadsheet designed for the purpose of tracking cumulative hours for their employees as they utilize FML. The HR Coordinator's responsibility is to review FML documentation noting when employees have a qualifying event and/or spouse working for the County that require hours to be coordinated between the two employees. Future enhancements will include further tracking capabilities through various PeopleSoft programs as they are developed and implemented.

- B) Concur. The FML employee certification form is an in-house document that HR will review and revise appropriately so that HR Coordinators can verify and identify all FML eligibility requirements are met prior to approval.
- C) Concur. With the de-centralization of FML, HR Coordinators in the field have been trained and provided FML regulations, which contain the time periods identified within the regulations for written notifications. It is the HR Coordinator's responsibility to adhere to the regulations.

**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, 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 board approved, executed contracts. However, subsequent to their execution, the Division contacted the County's insurance providers and requested changes 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. Differences were noted in the definitions and terms of the various versions of the agreements held by the Division and the executed contracts as summarized below:

- Definition of eligible participants (vision, long-term disability, group life, and accidental death and dismemberment insurances);
- Definitions of an eligible dependent (dental and accidental death and dismemberment insurances);

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- Limits to the benefit award for a qualifying event (life and accidental death and dismemberment insurances);
- Eligibility waiting periods (long-term disability insurance);
- Evidence of Insurability and available waivers of providing evidence (group life and accidental death and dismemberment insurance); and,
- Extended Coverage for Dependents of a Reservist (life and accidental death and dismemberment insurance).

The Division assumed that the changes were legally enforceable and administered the County's benefits program accordingly, even though the contract changes were not properly signed or executed by the insurance providers, the Orange County Purchasing and Contracts Department, or the Board.

Orange County Procurement Ordinance No. 92-26 provides that all rights, powers, duties and authority relating to the procurement and contracting of goods and/or services for the Board, including the authority to approve all purchases and sign those agreements, contracts, change orders, and purchase orders for the purchase of goods and/or services governed by the ordinance are vested in the Chief of Purchasing and Contracts.

Proper administration of the benefit program requires conformance to the legally binding terms contained in the executed contracts. The County's risk of potential litigation is increased when terms are not formally changed, and employees are allowed to enroll based upon terms informally agreed upon by the providers' representatives and Division staff.

Subsequent to bringing our concerns over noted inconsistencies 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 Department and follow established regulations and procedures in the amendment of any contract terms.

**Management's Response:**

Concur. All items identified as inconsistent during the audit have been corrected and contracts formally amended. HR procedures for contract monitoring and formal amendments to be handled appropriately have been developed.

**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 the benefits of medical, dental, vision, long-term disability, and life insurances executed for the 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 as the definitions provided in the plan certificates and the one provided in the Beneflex Program Binder. The multiple definitions created scenarios where employees were informed they had dependent eligible for certain core benefits when the contract did not allow it. We also noted inconsistencies in the descriptions and/or definitions provided for:

- Accelerated benefits (life insurance);
- Evidence of insurability requirements (long-term disability and dependents' life insurances);

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- Attainment of age and consequences to premium rates and renewal (including possible reduction in benefit award) (life and accidental death and dismemberment insurances);
- Effective Dates of Coverage and Termination of Coverage (health, dental, vision, and long-term disability insurances);
- Annual Earnings, Inclusion/Exclusion of Shift Differential Pay (long-term disability and life insurances);
- “Any Occupation” related to rehabilitation (long-term disability insurance);
- Monthly maximum benefit amount (long-term disability insurance); and,
- Dependent Spouse Options (life insurance).

Inconsistencies between Orange County policy, benefit contract terms and language, and the benefit information disseminated to employees can impede the uniform, fair, and efficient administration of providing benefits. For example, benefit determinations based on interpretations from inappropriate source documentation (the summary information versus the actual executed contract) can result in wrongful eligibility determinations. This could negatively impact both the County and the employee by requiring them to pay for coverage they are not eligible to receive. In addition, the County’s premium could increase because of claims related to these ineligible participants. Administering benefits contrary to contract language can affect the experience rate and unnecessarily increases the County’s risk of potential litigation.

**We Recommend** the Division coordinates with County Administration and the County’s Legal Department to ensure that all policy programs are in compliance with the executed benefit contracts.

**Management's Response:**

Partially concur. As the issue of eligibility variables surfaced with previous contracts, new contract negotiations are closely monitored and written to have consistent eligibility requirements and wording whenever vendors allow such. If vendors have regulations that prohibit County preference, care is now being taken to verify that appropriate information is distributed accurately and in a timely manner to keep employees informed of variations to eligibility guidelines. This may include review at County Administration or County Attorney level as appropriate.

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

During the 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. The performance guarantees 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. We commend the County for including performance measurements. The policy contracts set forth the dollars at risk if the providers fail to meet the performance guarantees. The dollars at risk, and the associated performance measures are described below:

- A) The 2002 plan year contract for dental benefits contained performance guarantee measures related to the following five areas:
- Claims Responsiveness
  - Customer Service Response Time
  - Grievance Resolution
  - Implementation Services
  - Account Management

The provider placed a total of four percent of the plan year's premium dollars at risk based upon their ability to meet the five measures. We estimate that amount to be approximately \$51,500. However, as noted above, the Division did not actively monitor or document the provider's compliance with the performance guarantee measures.

- B) 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. In August 2002, the provider sent a letter of agreement that only four measures had not been met. The provider computed that there was a monetary award due to the County of \$16,000 associated with those four unmet measures. At that time, the Division failed to substantiate the provider's compliance with the measures indicated as met.

Our review identified four additional measures that were not met. Performance guarantees standards for numbers 11, 22, 23, and 24 related to the timely submission of physician turnover rates on a quarterly basis, quarterly financial reports, annual financial reports and detailed claims reports carried a total additional at risk amount of \$16,000. We agreed with the compliance status of all other guarantees except that we were unable to determine compliance with performance guarantee standard number 14, related to timely processing of initial enrollment forms. The Division's procedures did not document or monitor dates of initial benefit enrollment forms' submissions. Without the appropriate documentation of dates related to the processing of enrollment forms, the County cannot confirm the provider's assertion that the performance guarantee was met. The amount at risk for this performance measure was \$4,000.

If the Division does not actively monitor and document the providers' compliance with the guarantees specified in the benefit contracts, the Division cannot confirm the providers' assertions that performance guarantees were met. Although

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we discussed our findings with the Division Manager and staff, they 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.

**Management's Response:**

Concur. Human Resources Benefits, with the assistance of the County's Benefits Consultant, has reached agreement with UHC on 2001 and 2002 performance guarantees not met, and anticipate payment to the County in the next 45 days. In addition, we are initiating the same discussion for UHC plan year 2003, and are meeting with UHC's Key Account Manager to define and agree upon how performance guarantee measurements will be evaluated and reported back to the County for 2004 contract year and beyond.

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

Our 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. As previously discussed, the Division was aware of the definition discrepancy but failed to properly amend the contract to agree with County Policy, and did not monitor enrollment to ensure compliance with the contract terms before the execution of the amending definition.

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.

The County’s claims experience rates can be adversely affected by the payment of benefits to ineligible employees.

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

**Management’s Response:**

Concur. As previously discussed with # 11 and # 12 participants are monitored at initial enrollment, at open enrollment, and throughout the year for compliance. PeopleSoft also allows for more efficient monitoring through queries on employee and dependent data with the addition of the Benefits Administration program enhancement.

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

In our 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 change (in this case, the removal of coverage for a dependent). The County offers an Internal Revenue Code approved benefits “Cafeteria Plan” as defined by Section 125 Cafeteria Plans of the Internal Revenue Code.

Employer contributions to a cafeteria plan are made pursuant to a salary reduction agreement in which the employee agrees to contribute a portion of their salary on a pre-tax basis to pay for the qualified benefits. Thus, the contributions are not considered wages for federal income tax purposes. In addition, the contributions generally are not subject to Federal employment taxes.

The Internal Revenue Service defines qualifying events (often referred to as family status changes) that must occur before employees' elections can be changed during a plan year. A bona fide family status change must exist for the change to be allowed. Violations of Section 125 of the Internal Revenue Service could result in the County's ineligibility to participate in a Cafeteria Plan and offer employees the accompanying benefit of pre-tax deductions.

**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.

**Management's Response:**

Concur. HR currently and always has allowed changes, consistent with the event, only when documentation of a qualifying family status change has been received within the allowable timeframe. The item in question by the audit team had documentation for the event, however the audit team felt the documentation was insufficient in that one instance.

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

As a general rule, unless there is a special request for review or assistance from the claimant, the Division does not 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", meaning that 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.

The Division completes portions of an employee's life claim request and then places a copy of the claim in the employee's personnel file before forwarding the claim to the provider. However, an employee's long-term disability claim

request forms are not reviewed by the Division, but are completed by the Orange County Comptroller's Payroll Department based upon records from the software application and databases utilized by both the Comptroller's Payroll Department and the Division. The Payroll Department submits the completed claim forms directly to the provider.

Our review of long-term disability claims paid by the two providers utilized in the audit period identified various exceptions including:

- One employee claimant who received payments from both providers for the claims submitted for the same qualifying event.
- One deceased employee's beneficiaries who were not informed of death benefits available through the long-term disability coverage the employee was receiving. After bringing this to the Division, County staff was able to contact the surviving nineteen-year-old son of the deceased to arrange payment of the claim.
- Documentation was not available to adequately support the notification of employees receiving long-term disability benefits of options and enrollment in "Continued Life Insurance". In one instance, the employee's beneficiaries obtained legal counsel to pursue the claim and received a negotiated settlement.

These situations could have been avoided if the Division actively monitored long-term disability claims and providers' reports of activity. Insurance claims must be actively monitored, to ensure that employees receive the benefits due them, and to reduce the risk of insurance fraud. Undetected fraud results in increased premium costs to the County and participating employees.

**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.

**Management's Response:**

Partially concur. Procedures have been established for monitoring claims and verifying eligibility starting with 2002, as more comprehensive reporting by the new vendor was provided. A request for additional control procedures has been made in order to ensure proper due diligence is being conducted in minimizing the risk of insurance fraud and ensuring proper benefits. Internal Audit is welcome to review the current reconciliation process and recommend additional controls as appropriate.

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

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.

Supplemental insurance providers offer specialty benefits at the employee's option and cost (from after tax dollars) for participating in accident, cancer, intensive care, extended care, short-term disability and term life insurance policies. If monitoring procedures are not in place, the County is at risk of providers using unethical marketing practices, unfair enrollment procedures, and/or providing inferior benefits to employees.

**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.

**Management's Response:**

Concur. The County's Benefits Consultant, at the request of Human Resources, has reviewed the financial ratings of the supplemental insurance providers each summer for the past 2 years in preparation for the annual open enrollment process. As a result, two of the three providers (CONSECO and Colonial) are no longer able to participate in benefits open enrollment or to accept new County policyholders with premiums paid through payroll deductions. This leaves just one qualified supplemental insurance provider (AFLAC). Additionally, the existing Administrative Regulation is out of date and in need of revision. Human Resources is therefore working with County Administration to determine 1) whether the County should continue to offer voluntary supplemental benefits, and 2) if so, how supplemental insurance providers should be selected, what revisions should be made to the Administrative Regulation, and how the program should be administered. This review and revision of the current regulation and process will be completed and presented to the Board for approval prior to the 2004 Benefits Open Enrollment period.

**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 the Division met their objectives for the four fiscal years ending in 2003. Although performance measurement is important to the Division, 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. The targets were described as an average of the prior years actual. However, the actual numbers have increased yearly while the targets have remained fairly stagnant. For instance, the targets from FY 00-01 to FY 02-

03 are identical for all measures. The Division regularly exceeded their targets with the exception of the “Percentage of Employee Issues Resolved” target. Currently a “best guess” method is used to predict the targets rather than an objective estimation method.

An objective methodology should be used in order to remove influences that may create targets, which although they reflect well upon the Division, do not provide an accurate means of measuring the Division’s performance. Best business practices require documentation of how the targets are projected. The mathematical approach used to estimate the targets should be documented. If the Division decides not to use a mathematical estimation methodology, then written explanations should be provided.

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

**Management’s Response:**

Partially concur. We agree with the need to generally project future trends and forecast outcomes, however, it is difficult to quantify and therefore anticipate programs, methods and initiatives contingent upon human conduct and actions. In those areas where trends relate to tangibly produced outputs, we will take into consideration opportunities for forecasting.

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

One of the performance measures reported by the Division is the number of employment offers extended. However, the data reported for this performance measure does not include all employment offers extended, but only those offers in which the candidate accepts the offer and clears final background and medical screenings.

The total number of offers, both successful and unsuccessful offers, may provide a more complete measure, and be used

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## RECOMMENDATIONS FOR IMPROVEMENT



Audit of the  
Human Resources Division

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to compare the time and cost of extending successful offers as well as unsuccessful offers.

**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.

**Management's Response:**

Concur. Revised measures have been submitted effective FY '03/04 which more accurately reflect the Division's operational objectives.