INTERNAL AUDIT SERVICES

COUNTYWIDE REVIEW OF

STATE DISABILY INSURANCE (SDI)

PROGRAM ADMINISTRATION

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Countywide Review of State Disability Insurance (SDI)

Program Administration

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INTRODUCTION

In accordance with the Fiscal Year 2009/10 Audit Plan, we conducted a review of the administration of the State Disability Insurance (SDI) program in the County. We conducted our review in accordance with Standards for the Professional Practice of Internal Auditing.

BACKGROUND

SDI benefits are paid by the Employment Development Department (EDD) of California to individuals who become disabled by a non-work related injury or illness and are unable to perform their regular work for at least 8 consecutive days. The program is governed by the California Unemployment Insurance Code § 2626 and is paid for by SDI deductions withheld from the employee's pay each pay period. SDI benefits are paid to the employee based on wages paid during a 12 month base period prior to the injury or illness. EDD uses the wage base to determine a weekly benefit amount. The individual is eligible to receive benefits equal to one-seventh of the weekly benefit amount for each full day during which he or she is unable to work, up to a maximum of 52 weeks. There is a seven day waiting period before the individual can begin receiving SDI benefits from EDD. During the waiting period, the employee must use accrued sick leave hours if available in accordance with applicable Memorandum of Understanding (MOU), or Personnel and Salary Resolution (PSR).

At the end of the waiting period, the County integrates accrued sick leave with disability benefits up to an amount equal to the employee's regular gross pay. Upon exhaustion of sick leave, other accumulated annual and administrative leave must be used for integration; accumulated compensatory time off may be used for integration at the employee's discretion. The County will continue to pay the employer share of the premium for medical, vision, dental, and life insurance coverage on behalf of the employee receiving SDI for the period he or she is eligible for Family Medical Leave Act (FMLA) and/or California Family Rights Act (CFRA) leave, and may continue for a longer period provided the employee has sufficient leave accruals to fully integrate pursuant to the applicable MOU or, for unrepresented employees, the PSR. Additionally, sick and annual leave accruals will continue as long as the employee has sufficient leave accruals to integrate and remains on paid leave status. Once employee has exhausted accruals one must refer to the applicable bargaining unit MOU for specific guidance on leave accrual rights.

COUNTY IMPACT/RISKS

During FY 2009/10, 267 (roughly 10%) county employees received SDI benefits. The 267 employees reported total SDI payments received of over $1.5 million and integrated 54,378 leave hours.

Based on the current structure and processes in place, the SDI program reflects a risk to the County.

Some issues are as follows:

- Employees do not always inform their supervisors and departmental payroll clerks that they have applied for and are receiving SDI benefit payments from EDD. When an employee fails to inform the County of receipt of SDI benefits, depending on accrued leave balances, in some instances, the County continues to pay the employee full wages from leave accruals. This results in an overpayment to the employee. Under sections 2101, 2116, and 2122 of the California Unemployment Insurance Code, it is a violation to willfully make a false statement or knowingly conceal a material fact in order to obtain the payment of any benefits.

- Employees do not always provide accurate rate and payment amounts from EDD in a timely manner; therefore departmental payroll clerks cannot properly integrate leave accruals resulting in over or underpayment to the employees. Also there is an increased complexity of adjustments to payments of prior pay periods increasing the chance of error.

- Employees or supervisors do not always inform the departmental payroll clerk when they return to work. Delays in notifying the payroll clerk may result in erroneous payments to employees requiring adjustment and correction in subsequent pay periods.

- There are variations in MOU provisions as a result of the collective bargaining process. Some examples of these differences include:
    - Differences in the length of time that the County will continue to pay benefit premiums when an employee is out on leave
    - Different provisions regarding whether or not an employee continues to accrue sick and annual leave based upon whether or not the employee is fully integrating accumulated leave with SDI benefits

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These differences complicate the job of the departmental payroll clerk and may result in employee benefits incorrectly maintained or terminated.

OBJECTIVE

The objective of our review was to evaluate the roles and responsibilities over the administration of the SDI program to determine if controls are adequate to ensure compliance with existing State and County rules, regulations, policies, and procedures, in order to mitigate the County risks.

SCOPE & METHODOLOGY

We approached this review in two phases. In our initial phase, the scope of our review included the initiation of the SDI claim, validation of eligibility, enrollment, disenrollment, and monitoring of employees in SDI status in order to obtain an understanding of the overall process flow and controls. Our review included SDI policies and procedures in place and operating as of the date of our review. We interviewed key personnel in Human Resources and Auditor-Controller's Office to understand the respective responsibilities in the process.

A separate review will be conducted in the upcoming months to assess the accuracy and propriety of the County SDI integration process. In the second phase of the review, we will evaluate internal controls, processes and systems to ensure SDI integrations are processed accurately and timely. Included will be an assessment of segregation of duties, proper use of time reporting codes, changes to integrations for errors and corrections, and key reconciliations.

CONCLUSION

Based on our review:

- There is no comprehensive management of the SDI program by Human Resources or the Auditor-Controller's Office. Each plays a critical role, however no one department oversees the SDI program.
- There are no formal countywide policies or procedures to ensure state regulations and county MOU provisions are being properly followed, or employees and supervisors are complying with their responsibilities to the program. Without comprehensive program

management, employees on SDI may not be properly identified and monitored, incorrect integrations may be performed, or employee benefits incorrectly continued or terminated.

- There is currently no training on the SDI benefit program provided by Human Resources or Auditor-Controller's Office. Without adequate training, supervisors and payroll clerks are unaware of their responsibilities in the administration of SDI. Employees may not inform their supervisors and departmental payroll clerks of their application for SDI benefits. Employees may not provide proof of payments from EDD to payroll clerks necessary for accurate and timely leave integrations. Supervisors may not complete the Report of Employee Absence form necessary to inform County Risk Management of employee absences in excess of 3 days. This form initiates actions that inform employees of their rights and responsibilities and protects the County from risks associated with the administration of leave under the FMLA/CFRA/PDL programs. The Report of Employee Absence does not invoke the SDI cash benefit program provided by the state.

The following pages provide a detailed description of the opportunities for improvement and the related recommendations for this phase of our review. These recommendations will assist the County to establish effective policies and procedures for the administration of the SDI program.

The Auditor-Controller's Audit Division will conduct a six-month follow up review to determine if actions taken by management to improve controls over the administration of the SDI program in the County have been implemented.

FINDINGS AND RECOMMENDATIONS

1. PROGRAM MANAGEMENT

There is no comprehensive management of the countywide SDI program.

- Human Resources personnel process the personnel action forms placing or removing an employee on SDI status in the PeopleSoft system and are available to answer questions of ACO and departmental payroll staff in regard to benefit issues. However, neither Human Resources nor the Auditor-Controller's Office track the number of employees on SDI or monitor when employee benefits may end due to lack of leave accruals used for integration with SDI payments.

- ACO Payroll provides assistance to departmental payroll clerks in calculating the integration of employee leave hours with SDI payments. ACO Payroll developed the leave integration worksheet used by departmental payroll clerks to calculate leave integrations. They review SDI integrations upon request of payroll clerks or whenever they see an exception or issue that may be questionable. ACO Payroll monitors leave status on all employees to ensure correct use of time reporting codes which identifies when an employee is on SDI. When the status goes unchanged for a period of time that is longer than normal or typical, they spot check leave accrual balances and contact the departmental payroll clerk as to employee status. If necessary they contact Human Resources to request a determination on employee's eligibility for continuation of benefits.

Each of the two departments has partial involvement with the SDI program, but no one has overall responsibility for program management.

There is no single point-of-contact for administration of the countywide SDI program to ensure program objectives are met and risks to the county are minimized. This single point-of-contact should be the County connection to EDD for all communications regarding eligibility of County employees on SDI.

In addition, there are no countywide policies and procedures to ensure consistent application of SDI rules throughout the County, with the exception of the integration worksheet developed by the ACO. There is no process for sharing information between the respective departments to ensure everyone is aware of employees on SDI and the leave accrual and benefit status of those

employees. There is no process to track the number of employees on SDI or monitor when employee benefits may end due to lack of leave accruals used for integration with SDI payments.

As a result, the County is at risk for not identifying and monitoring employees on SDI, incorrectly calculating leave integrations, and incorrectly continuing or terminating employee benefits while on SDI.

RECOMMENDATIONS:
A. Establish a working group consisting of representatives from Human Resources, Risk Management, and Auditor-Controller's Office to define roles and responsibilities
B. Determine a single point-of-contact responsible for administration of the countywide SDI program
C. Establish policies, procedures, and internal controls over SDI program operations

MANAGEMENT RESPONSE:

Human Resources and the Auditor-Controller are open to working collaboratively and clarify roles and responsibilities for administration of the SDI program.

2. PROGRAM TRAINING

There is very little formal training on the SDI program.

- Supervisors are not always trained on their responsibilities with respect to their role in the SDI process, which would include, but not be limited to communication with employees and payroll regarding employee absence, SDI, and leave integration, and employee obligation to inform their supervisor and departmental payroll clerk of their intention to apply for SDI benefits and provide SDI payment rates and actual payment amounts for leave integration.

  42% of supervisors are not trained on their responsibilities to complete a Report of Employee Absence form and to keep department management and payroll clerks informed of an employee's return to work status. Risk Management provides training to supervisors and managers through a program called "Effective Leave Administration Processes and Procedures". The training focuses on FMLA, CFRA, and Pregnancy Disability Leave (PDL) leave programs. The training, however, is not designed to focus

on the timekeeping and payroll details of SDI/benefit integration with either of these benefits. Additionally, the training is not mandatory. According to the HR Training Manager, 267 from approximately 460 county supervisors and managers have attended the leave administration training.

- Neither Human Resources nor Auditor-Controller provide training to ACO payroll and departmental payroll clerks on the proper application of employee benefits while on SDI.

- Employees do not always inform their supervisors and departmental payroll clerks of their application for SDI benefits.

- Employees may not provide pay rates and proof of payments from EDD to payroll clerks necessary for accurate and timely leave integrations.

- Supervisors do not always complete the Report of Employee Absence form necessary to notify County Risk Management of employee absences in excess of 3 days.

- Pay clerks may not properly apply the varied MOU provisions relating to employee benefits as leave accruals run out.

RECOMMENDATIONS:

A. Establish a working group consisting of representatives from Human Resources, Risk Management, and Auditor-Controller's Office to define SDI training requirements and responsibilities.

B. Develop a training program to meet the program requirements.

MANAGEMENT RESPONSE:

Human Resources and the Auditor-Controller are open to working collaboratively to see that HR training and ACO payroll training provide complementary information to managers, supervisors, and payroll staff regarding the SDI program.