



OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

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February 4, 2008

Margaret M. Whelan, General Manager
Personnel Department
700 E. Temple Street, Room 305
Los Angeles, CA 90012

Dear Ms. Whelan:

**SUBJECT: EVALUATION OF RESPONSE TO AUDIT OF EMPLOYEE
BENEFIT PAYMENTS**

My Audit Division has evaluated your January 11, 2008 response to the "Audit of Employee Benefits" issued on November 20, 2007. I am pleased to see that the Personnel Department took the initiative to review additional years, and as a result of our audit, anticipates recovering over \$910,000 (\$809,000 related to life insurance and disability insurance premiums plus \$101,000 related to health and dental premiums).

Regarding the estimated fiscal year 2006-07 overpaid premiums of \$1.2 million cited in our audit report, your response indicates that the Department's estimate is \$678,407. This amount is based on the Department's contention that some overpayments were not the Personnel Department's fault or that some of the overpayments would have been recovered through existing procedures. However, my auditors were not provided with any documentation to show that the overpayments would have been detected and recovered.

For example, the Employee Benefits Division (EBD) stated that several of the overpayments would have been identified through its periodic audits. However, we noted that none of the overpayments had been recovered, even though the overpayments occurred over eight months before. Regardless of whether the overpayment amount is \$678,000 or \$1.2 million, the amount is significant and demonstrates the need for corrective action to prevent them from occurring.

We understand your concerns about not prematurely terminating employees' benefit. Hopefully, the implementation of several of our recommendations should allow the Department to terminate benefits timely and also give the Department confidence that benefits are not prematurely terminated.

Margaret M. Whelan
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Except for two recommendations discussed below, I accept your department's response:

Recommendation #3

We are not clear why a match with LACERS would not identify any overpayments. It appears that there is a risk that recently retired employees could be simultaneously receiving health and dental benefits through both LACERS and the City's Flex Plan.

Recommendation #6

Your response indicates that there is virtually no risk of employees who elected supplemental disability not being covered because employees receive confirmation of their benefit elections annually after open enrollment. Also, your response indicates that matching the vendor's monthly payments and the City biweekly payroll deductions is not a valid methodology because the periods of each are not synchronized.

We understand that there are timing differences between payroll deductions and the vendor's monthly payments. However, performing a match could still be useful in identifying potential problems in payroll deductions and/or monthly premiums paid to providers. For example, there are timing differences between health/dental payroll deductions and the corresponding premium payments, yet we performed matches of this data to identify the overpayments cited in our audit report.

With respect to the risk of employees who elected supplemental disability not being covered, we would agree with your position if the confirmations were received from the providers, instead of from Mercer. Receiving confirmation from Mercer does not necessarily mean that the employee is covered by the provider.

I encourage you to continue working with the PaySR team to ensure system enhancements meet your requirements. As part of my office's follow-up program, we will be requesting a status report approximately six months after the issuance date (May 2008). The objective of the follow-up program is to ensure that the audit recommendations have been properly addressed.

Sincerely,

A handwritten signature in black ink, appearing to read "Laura N. Chick" followed by a stylized flourish and the word "for".

LAURA N. CHICK
City Controller

cc: Cheryl Parisi, Chairperson, JL-MBC