

CITY OF ALLENTOWN

REVISED

ACCOUNTS RECEIVABLE UNDER \$10K – HUMAN RESOURCES

Date of Report: September 24, 2021

Accounts Receivable (AR) is money owed to the City of Allentown but not yet paid for by its constituents and/or customers. AR is reported in EDEN and is created by the various departments for services rendered by the City.

Per the City of Allentown’s Personnel Policy Manual (COA PPM), April 2009:

“For all eligible retirees... The City will pay 75% of the premium costs for said medical and prescription coverage and the retiree will pay the remaining 25% of the premium costs. “

Yearly, Human Resources (HR) calculates the total plan premium. HR then updates the EDEN AR with the retiree’s yearly portion of the plan premium. As payments are made, the EDEN AR is reduced by the payment amount.

Monthly, EDEN generates an invoice and mails it to the customer, who, in turn, must pay it within an established timeframe.

As of 05/24/2021 the total Accounts Receivable balance in EDEN was **\$3,042,660.72**.

- We identified 72 (seventy-two) AR accounts for Retiree Health Coverage under \$10,000.00 (\$10K), totaling **\$200,246.34**.

OBJECTIVE

The objective of the review was to review AR under \$10K for HR and to:

- Determine the accuracy of the AR balance by account,
- Determine the reasonability of collection of the AR, and
- Identify any areas for improvement.

PROCEDURES

This audit was conducted in accordance with generally accepted governmental auditing standards and utilized an approach that included reviews of EDEN, City Policy, and reports.

Our process began by running an EDEN AR report and identifying all accounts with a balance under \$10K. Using the list, the AR was categorized and the HR accounts with balances under \$10K were reviewed.

FINDINGS, RECOMMENDATIONS AND RESPONSES

INTERNAL CONTROL WEAKNESSES

1. Improper Segregation of Duties

During our review of the EDEN AR for the Retiree Health Coverage we identified:

- Several instances of the incorrect premium being posted to the retiree's AR account i.e., transposition errors, monthly premium amounts not totaling the yearly premium charged,
- Double billing of premiums resulting in incorrect AR balances,
- Write-offs of AR balances and premium adjustments with no evidence of oversight or approval of the AR adjustments.
- Several instances of the EDEN adjustment being made by the same person who initiated the adjustment with no independent approval.

Additionally, nothing was scanned into EDEN to provide an audit trail that explains why the adjustments were made.

Currently, the HR Benefits Manager has the responsibility and oversight of calculating the Retiree Health Coverage premium, entering the premium amount due into EDEN AR, adjusting the EDEN AR, changing the account type/status, and reviewing the AR balances annually.

Recommendation

Administration should implement a process to insure a proper segregation of duties and documented oversight.

Administration's Response

FINANCE: The Finance Department agrees and will be taking over the process of billing/reconciling of the Retiree Health Coverage premiums. Finance and the HR Dept will work together to rectify issues identified above prior to the complete handover of AR duties.

HR: AR responsibilities are being transferred to the Finance team as recommended in the last audit. Finance is better equipped to handle accounts receivable.

2. Questionable Adjustments and Lack of Adjustment Documentation

Per the COA PPM:

“Once covered, if a retiree discontinues making payment of the required contributions or does not make the contribution by the 9th day of each month, he/she can never participate in a City retiree plan again for any reason.”

We identified 1 (one) retiree who retired in 2016:

- Per the EDEN AR the retiree was not billed nor paid any premium for the 2018 Retiree Health Coverage.
- The retiree was billed and made payments for 2019 – 2021.
- Per Benefit Focus, the retiree has Retiree Health Coverage.

No documentation was evident in EDEN to explain the lack of payment in 2018 and the retiree’s continued coverage.

Additionally, we identified several instances of adjustments that appeared questionable. In particular:

- 1 (one) retiree’s EDEN AR was delinquent **\$863.66** at year end 2018 but received credit for 2018 “overpayments” totaling **\$863.66** eliminating the outstanding AR.

Recommendation

Finance should review the questionable adjustments.

Going forward, adjustments to the AR Account should be documented. The adjustments should be reviewed and approved by Finance before being entered in EDEN.

Administration’s Response

FINANCE: The Finance Department agrees. The Finance Department will now be responsible for determining adjustments, if appropriate. Documentation will be included in Eden justifying the reason for any adjustment.

HR: HR will clearly document all adjustments with Finance so that they will be saved in Eden with any AR adjustments. This will be monitored by Finance since the billing portion will be handled by Finance.

3. Aging of Past Due Accounts

Per the payment policy outlined in the COA PPM, we identified the actual Past Due AR accounts, reduced the balances by the amounts that were not currently due (See Issue #6) and pin-pointed 20 accounts totaling a current AR balance of **\$24,496.69** that we deemed as current retiree past due and aged them as follows:

2021	2020	2019	2018	Pre-2018
Short Paid per COA PPM	Short Paid	Short Paid	Short Paid	Short Paid
\$ (A)	\$ (A)	\$ (A)	\$ (A)	\$ (A)
\$10,232.77	\$6,119.53	\$3,153.08	\$3,095.60	\$1,895.43
Total Medical & RX expended on delinquent short paid ACs	Total Medical & RX expended on delinquent short paid ACs	Total Medical & RX expended on delinquent short paid ACs	Total Medical & RX expended on delinquent short paid ACs	Total Medical & RX expended on delinquent short paid ACs
\$ (B)	\$ (B)	\$ (B)	\$ (B)	\$ (B)
\$341,390.93	\$485,100.56	\$313,510.52	\$377,644.49	\$308,397.58

(A) - Difference of \$0.28 in totals were due to rounding errors and deemed immaterial to pursue.

(B) - Medical claim information revised to include all retiree claim information.

Recommendation

Administration should review the listing provided by the Controller's Office and either pursue the balances due or write-off the balance as deemed appropriate.

Administration's Response

FINANCE: The Finance Department agrees and will be reviewing all outstanding balances to determine the appropriate course of action.

HR: It is a Finance decision to determine if a balance is to be pursued or written off.

4. **AR for Retirees Under 65 with No Health Coverage**

We identified 2 retirees who are both under 65 who at some point had Retiree Health Coverage. Based on the activity in the account it could not be determined what the actual AR should be or whether the retiree's AR was current.

As of 06/2021 neither retiree was listed on Benefit Focus as having medical coverage.

Retiree 1, EDEN AR as of 08/13/2021, **\$511.02:**

- Initially the retiree was charged Retiree Health Coverage Premium for 2 months of 2020 and 12 months for 2021.
- The billing was reversed.
- A new premium amount was entered for 2020 and 2021. The difference was an increase to the 2021 premium due only.
- The retiree paid the total 2020 premium in full and 2 payments for 2021 were made.
- HR made an adjustment reversing the 2020 premium due and reducing the 2021 premium due. This resulted in the 2020 premium paid being applied to the 2021 premium due.

- If the 2020 premium adjustment was made in error the AR should be **\$2,092.90**.

Retiree 2, EDEN AR as of 08/13/2021, **\$2,291.18**:

- Initially the retiree was charged Retiree Health Coverage Premium for 2019 and made 2 monthly payments.
- HR made an adjustment reducing the 2019 premium.
- After the adjustment, the retiree made 7 monthly payments for the new net premium and then stopped.
- HR billed the 2020 premium and then made an adjustment partially reducing the 2020 premium due.
- It is unknown what the status of the coverage is or should be.

Recommendation

Administration should research the adjustments made and the retirees' coverage status and correct the AR as appropriate. A new statement with an explanation should be certified mailed to the retiree to insure receipt.

IF the retiree should have medical coverage and is current in their payments, medical coverage should be reinstated.

Administration's Response

FINANCE: The Finance Department agrees. As part of the transition process, we will be working with the HR Dept to review all processes and procedures as well as all accounts and corrections will be made as appropriate.

HR: HR will research the adjustments made and the retirees' coverage status and correct the AR as appropriate. A new statement with an explanation will be sent to the retiree. IF the retiree should have medical coverage and is current in their payments, medical coverage will be reinstated.

5. **AR for Retirees Over 65**

Of the 72 (seventy-two) AR accounts for Retiree Health Coverage reviewed, 24 (twenty-four), totaling **\$24,038.56**, were for retirees who were 65 and over. Per the 3rd party provider, none had current coverage with the City.

We reviewed the 24 (twenty-four) AR accounts and noted some of the differences were caused by miscellaneous adjustments to the AR made by the City and some were for non-payment by the retiree.

Some of the AR adjustments appear to be made in error.

Recommendation

Administration should review the listing provided by the Controller's Office and determine whether collection of the AR or write-off is appropriate.

Administration's Response

FINANCE: The Finance Department agrees. All retiree accounts will be reviewed with HR, and appropriate action taken.

HR: It is a Finance decision to determine the decision to collect or write off.

6. Prebilled AR

Since 2016, Retiree Health Coverage is prebilled annually.

The retiree's AR account is set up in EDEN with one lump sum at the beginning of the year. As payments are received, they are applied against the retirees' AR. In theory the retiree's AR balance in EDEN on December 31st should be \$0.00.

Our review was as of 05/24/2021. Although the EDEN AR reflected a balance due, of the 72 (seventy-two) AR accounts for Retiree Health Coverage reviewed:

- 24 (twenty-four), totaling **\$79,839.73** were for retirees whose payments were not yet due; the actual balance due was \$0.00 and in some cases the account should reflect a negative AR (overpayment).

Recommendation

Administration should review their prebilling policy and work with IT to determine whether automated monthly billing can be accomplished in EDEN to provide an accurate AR balance.

Administration's Response

FINANCE: The Finance Department agrees. All process and procedures will be reviewed as part of the transition process to determine the most efficient way to process these transactions. Additionally, these questions will be asked as part of a future training with Tyler on the AR Module.

HR: Billing will be taken over by Finance and will be converted to monthly billing beginning January 2022.

7. **Retired Firefighter AR**

Retiree Health Coverage premiums for retired Firefighters and Police are made as Pension Payroll deductions. Per the Fire Pension Board delegate, this has been the practice for over 25 years.

During our review we identified 1 (one) retired firefighter whose medical contribution was terminated as a Pension Payroll deduction and converted to an AR account.

Per the HR Director,

“This fire fighter requested we bill him directly. We checked the pension ordinance as well as the union contract and found no language requiring that we take the payment as a payroll deduction, so I allowed it. He is the exception, and he pays regularly.”

Per the payment policy outlined in the COA PPM, for 2021, the firefighter is delinquent **\$1,066.74**.

Recommendation

The practice of paying Retiree Health Coverage premiums for retired Firefighters and Police as Pension Payroll deductions should be formalized and enacted as a procedure.

Changes or exceptions to the procedure should be formally approved by the HR and Finance Director and communicated to Administration and scanned into EDEN.

To ensure payment compliance, the Pension Payroll deduction should be reinstated.

Administration’s Response

FINANCE: The Finance Department agrees. We will develop a formal policy on pension payroll deductions. The specific account will be reviewed for appropriate action.

HR: This firefighter will be billed directly from his pension as all other fire fighters beginning January of 2022.

8. **Current Employee AR**

During our review we identified 1 (one) employee who had retired and was re-hired in 02/2019; they have an open AR of **\$560.10** for Retiree Health Coverage.

We reviewed the employee’s AR account and noted although the re-hire date was 02/2019, the medical contribution was billed for 3 months. Additionally, due to

adjustments made to the AR and an overpayment by the retiree, the retiree overpaid by **\$30.31**.

Recommendation

Administration should review the listing provided by the Controller's Office and once validated, correct the AR, and reimburse the employee for the overpayment.

Administration's Response

FINANCE: The Finance Department agrees. All accounts will be reviewed with HR as part of the transition for any possible occurrences such as this employee. If there are any overpayments the employee will be reimbursed.

HR: This overpayment will be validated. If the employee has actually overpaid, he will be reimbursed.

9. Lack of Monthly Statements or Invoices

Since 2016, Retiree Health Coverage is pre-billed annually.

In January 2019, the HR Benefits Manager sent a letter to retirees informing them that they would be billed annually and although a contradiction of COA PPM, they could pay monthly, quarterly, bi-annually, or annually.

By doing so, the total premium for the year is not due until the end of the year. This process can lead to the AR accounts becoming delinquent and for the current payments to be applied to the past due balances thereby distorting the AR balances.

We identified several instances where the retiree had City provided health coverage, became eligible for Medicare, and still owed the City for several months of unpaid Retiree Health Coverage premiums. In most instances the balances remain outstanding (See Issue #5).

Per the HR Benefits Manager, the Retiree Health Coverage invoice is created, printed, and mailed out yearly to retirees mid to late January. No other invoices or statements are sent to the retiree.

Recommendation

At a minimum for delinquent AR accounts, statements should be mailed to the retirees monthly informing them of balances due.

For retirees reaching the age of 65 the AR accounts should be scrutinized and all attempts to collect the unpaid Retiree Health Coverage premiums should be made before they reach age 65.

Administration should consult with the Solicitor to review possible legal remedies for delinquent Retiree Health Coverage premiums and if possible, implement a process for delinquent accounts.

Administration's Response

HR: HR will consult with the Solicitor to review possible legal remedies for delinquent Retiree Health Coverage premiums and work with Finance to collect delinquent accounts.

10. Lack of Payment of Returned Check Fees

We identified 2 (two) bounced checks for payment of retiree health coverage. Although the retiree was assessed returned check fees in 05/2018 and 07/2019, neither of the fees were paid and their medical coverage continued.

Recommendation

Administration should consider revising the Retiree Health Coverage process to address the lack of returned check fee payments.

Administration's Response

FINANCE: The Finance Department agrees. All processes and procedures will be reviewed and considered as part of the transition process. We will review the returned check fee process and ensure it is adhered to going forward.

11. EDEN Address Information Not Systemically Updated

In EDEN, the retiree's employee number in the HR/Payroll module is not linked to the retiree's customer number in EDEN AR.

The Retiree Health Coverage invoice and statement is printed using the address on the EDEN AR module.

We were advised of 1 retiree's address on the EDEN HR modules not matching the address on the EDEN AR module:

Per the HR Benefits Manager:

“Retirees are required to advise HR of addresses changes. Once received it is entered in Eden and Benefit Focus (our benefits portal). Turns out that even though we enter in the HR/Payroll Eden module, Eden does not automatically update the AR module.”

Recommendation

Administration should consult with EDEN to determine whether the HR/Payroll and AR modules can be linked to eliminate error and reduce manually entry.

Administration's Response

FINANCE: The Finance Department agrees. We have requested training with Tyler on the AR Module and that has been one of the questions that was asked.

HR: Finance has invited HR to attend an Eden training. A question will be raised in the training to determine if the HR Payroll AR modules can be linked.

12. EDEN AR Type Not Used

In EDEN, the AR customer type includes the option "RET" for retiree. During our review we noted the option was not being used. Use of the option will allow for easier searches in EDEN.

Recommendation

For retiree AR customers, Administration should change the EDEN type to "RET" to facilitate search and data analytics.

Administration's Response

HR: This has already been fixed.

13. Different Premium Rates Assessed

We compared the 2021 annual premium assessed by category, salary class and medical coverage and identified 2 instances where the retirees retired in the same year, were in the same salary group, and had the same coverage per Benefit Focus BUT had different premium rates assigned.

Recommendation

Administration should review the listing provided by the Controller's Office and once validated, correct the AR.

Going forward, Administration should use data analytics to review anomalies to rates and validate on a timely basis.

Administration's Response

FINANCE: The Finance Department agrees. All accounts will be reviewed. Any errors will be corrected going forward. Documentation to justify any changes will be included in Eden. A process will be developed to ensure accurate rates are being charged.

HR: Updated processes with HR and Finance collaborating to manage AR will provide a second level of scrutiny to prevent this type of human error in the future.

14. Inactive AR with Balances

We identified 27 AR accounts in "Inactive" status in EDEN. The accounts had balances totaling \$20,905.97.

Recommendation

The customer balances should be reviewed and corrected, either by collection, adjustment, or write-off to zero before the accounts are inactivated.

Administration's Response

FINANCE: The Finance Department agrees. We will address all 27 accounts identified in this report. Going forward, we will develop a process to ensure all accounts remain active until they have a zero balance.

HR: HR will work with Finance to determine which accounts should be written off.