OCTA

August 23, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Life Insurance Benefits

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of oversight and administration activities related to life insurance benefits, as well as compliance with policies, laws, and employee contracts governing these benefits. Based on the audit, administrative and oversight controls should be improved, and employee contracts should be updated to reflect all terms of the benefits provided. Further, the life insurance provider declined to provide evidence necessary to verify compliance with California law relating to post-mortem interest due. The Internal Audit Department has offered four recommendations.

Recommendation

Direct staff to implement four recommendations provided in Life Insurance Benefits, Internal Audit Report No. 23-505.

Background

Basic life insurance is provided by the Orange County Transportation Authority (OCTA) to full-time and part-time employees, including Transportation Communications Union (TCU) employees, Teamsters Local 952 employees (coach operators), and Board of Directors (Board) Members. For coach operators, OCTA provides a $25,000 basic life insurance benefit to the coach operator, a $5,000 basic life insurance to their spouse/domestic partner, and a $500 basic life insurance benefit for each child. Voluntary employee-paid supplemental life insurance is also offered by OCTA for administrative employees, TCU employees, coach operators, and Board Members and their eligible dependents.

The Fiscal Year (FY) 2022-2023 Personnel and Salary Resolution (PSR) states that life insurance will be provided by OCTA to all full-time and part-time employees, including TCU employees, in the amount of two times their annual salary, with a maximum benefit of $500,000. The PSR also states that life insurance will be provided by OCTA in the amount of $50,000 coverage for each Board Member.

The coach operator agreement between Teamsters Local 952 and OCTA (Coach Operator CBA) stipulates that an employer-paid "life insurance benefit in the amount of $25,000 per employee will be provided for every Full-time and Part-time Coach Operator." Further, the Coach Operator CBA also states that OCTA agrees to provide a life insurance policy for each coach operator in the amount of $250,000, when the death is caused during an assault and/or robbery against the coach operator while on duty.

OCTA has agreements with Public Risk Innovation, Solutions, and Management (PRISM), a member-directed insurance risk sharing pool, for VOYA, the administrator, to provide life insurance and supplemental life insurance benefits. Payments are made to PRISM's billing vendor, Benefit Coordinators Corporation, in accordance with agreements with PRISM.

The Benefits Section (Benefits) of the Human Resources Department in the People and Community Engagement Division is responsible for oversight and administration of life insurance benefits. Benefits is comprised of a section manager and three benefit analysts. Responsibilities of Benefits include life insurance enrollment and changes, invoice review, and communication and coordination of paperwork related to enrollment, changes, and claims.

Discussion

The PSR and Coach Operator CBA, or employee agreements, outline basic life insurance benefits, including coverage levels, but do not include information and/or reference to age-related benefit reductions. Additionally, life insurance benefits provided by OCTA to the spouse/domestic partner, and each child of coach operators are not referenced in the Coach Operator CBA, nor are the age-related reductions to Assault and Robbery Insurance. The Internal Audit Department (Internal Audit) recommended management amend the PSR to accurately outline and/or reference age-related benefit reductions and should consult legal counsel about a resolution to the Coach Operator CBA language that does not disclose age-related deductions or benefits provided to spouse/domestic partner and children. Management should also consult legal counsel to determine if undisclosed reductions to benefits paid should be corrected. Management indicated that a reference to the employee Benefits

Guide, which outlines age-related reductions, will be included in the FY 2024-25 PSR. Management agreed to include a section on the age-related reductions applicable to Coach Operator Assault and Robbery Insurance, in the 2023 Coash Operator Benefits Guide. Management stated that legal counsel has advised that age-related benefit reductions disclosed in the Coach Operator Benefits Guide represent sufficient disclosure.

There is no process in place to review the accuracy of benefit entries into the Lawson payroll system (payroll system). In addition, over a two-year period, the monthly invoice process failed to address a premium variance resulting from a benefit entry input error. Internal Audit recommended management develop procedures to ensure that benefit entries into the payroll system are reviewed for accuracy and the monthly invoice process be enhanced to include reconciliation of premiums collected versus premiums paid. Management agreed to enhance procedures to include the review of benefit entries and reconciliation of premiums collected versus premiums paid and investigate variances.

Procedures for review of claim forms for accuracy and completeness, and monitoring of claim status, are not adequate. In addition, the life insurance provider has declined to provide evidence of compliance with California law governing post-mortem interest. Internal Audit recommends management implement procedures to ensure accuracy, completeness, and timely submission of claim forms, and monitor timeliness of claim payments. Management should also consider further efforts to determine whether interest applied to proceeds complies with California law. Management stated they would request claim payment confirmations and track submission of claim forms regularly and will continue to request documentation for interest applied to proceeds in compliance with California law.

Supplemental life insurance premiums calculated and paid to VOYA for December 2021, were overpaid because Benefits staff prematurely adjusted the payroll system to reflect premium increases that were not effective until January 1, 2022. In addition, 53 employees were not charged updated premium rates effective January 1, 2023, because Benefits staff did not make appropriate changes in the payroll system to implement premium rate increases until February 2023. As a result of untimely updates to the payroll system, OCTA overpaid premiums by $953.90 to VOYA for December 2021, and undercharged employees $1,011.05 for premiums paid to VOYA in January 2023. Internal Audit recommends management implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Additionally, management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances. Management indicated that it would implement controls for timely annual premium updates and reconcile payroll deductions to premiums paid.

Summary

Internal Audit has completed an audit of life insurance benefits and has offered four recommendations that management has agreed to implement or otherwise address.

Attachment

A. Life Insurance Benefits, Internal Audit Report No. 23-505

Prepared by:

Ricco Bonelli
Principal Internal Auditor
714-560-5384

Approved by:

Janet Sutter
Executive Director, Internal Audit
714-560-5591

ATTACHMENT A

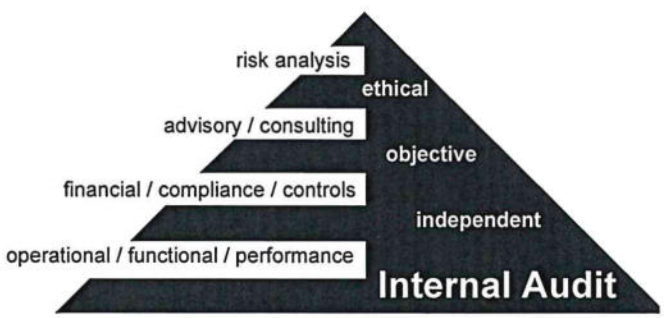
ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

OCTA

Life Insurance Benefits

Internal Audit Report No. 23-505

August 7, 2023



Audit Team: Ricco Bonelli, CIA, Principal Internal Auditor Janet Sutter for
Janet Sutter, CIA, Executive Director (J

Distributed to: Maggie McJilton, Executive Director, People and Community Engagement
Karen DeCrescenzo, Bea Maselli

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Life Insurance Benefits
August 7, 2023

Table of Contents

Conclusion 1
Background 1
Objectives, Scope, and Methodology 2
Audit Comments, Recommendations, and Management Responses 4
Life Insurance Benefits are not Accurately Outlined in Employee Agreements 4
Controls Related to System Input and Invoice Review Should be Improved 5
Claims Process and Monitoring Should be Improved 6
Discrepancies in Payment and Assessment of Supplemental Life Insurance Premiums 7

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Life Insurance Benefits
August 7, 2023

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of oversight and administration activities related to life insurance benefits, as well as compliance with policies, laws, and employee contracts governing these benefits. Based on the audit, administrative and oversight controls should be improved, and employee contracts should be updated to reflect all terms of the benefits provided. Further, the life insurance provider declined to provide evidence necessary to verify compliance with California law relating to post-mortem interest due. Internal Audit has offered four recommendations.

Background

Basic life insurance is provided by OCTA to all full-time and part-time employees, including Transportation Communications Union (TCU) employees, Teamsters Local 952 employees (coach operators), and Board of Directors (Board) Members. For coach operators, OCTA provides a $25,000 basic life insurance benefit to the coach operator, a $5,000 basic life insurance to their spouse/domestic partner, and a $500 basic life insurance benefit for each child. Voluntary employee-paid supplemental life insurance is also offered by OCTA for administrative employees, TCU employees, coach operators, Board Members, and their eligible dependents.

OCTA has agreements with Public Risk Innovation, Solutions, and Management (PRISM), a member-directed insurance risk sharing pool, for VOYA, the administrator, to provide life insurance benefits under Agreement No. C-7-1897 for basic life insurance and under Agreement No. C-7-1898 for supplemental life insurance. Payments are made to PRISM's billing vendor, Benefit Coordinators Corporation, in accordance with agreements with PRISM. VOYA's life insurance is underwritten by ReliaStar Life Insurance Company.

The Fiscal Year 2022-2023 Personnel and Salary Resolution (PSR) states that life insurance will be provided by OCTA to all full-time and part-time employees, including TCU employees, in the amount of two times their annual salary, with a maximum benefit of $500,000. The PSR also states that life insurance will be provided by OCTA in the amount of $50,000 coverage for each Board Member. The agreement between OCTA and TCU employees (TCU Collective Bargaining Agreement [CBA]) states that "employees covered under this Agreement will be eligible for health and life insurance benefits under the Authority's life, accident and health insurance benefits program for Administrative employees on the same basis as provided for Administrative employees in the annual Personnel Resolution".

The coach operator agreement between Teamsters Local 952 and OCTA (Coach Operator CBA) stipulates that an employer-paid "life insurance benefit in the amount of $25,000 per employee will be provided for every Full-time and Part-time Coach Operator."

Further, the Coach Operator CBA also states that OCTA agrees to provide a life insurance policy for each coach operator in the amount of $250,000, when the death is caused during an assault and/or robbery against the coach operator while on duty. This insurance is underwritten by Prudential Insurance Company of America.

Benefits Section

The Benefits Section (Benefits) of the Human Resources Department in the People and Community Engagement Division is responsible for oversight and administration of life insurance benefits. Benefits is comprised of a section manager and three benefit analysts. Responsibilities of Benefits include life insurance enrollment and changes, invoice review, and communication and coordination of paperwork related to enrollment, changes, and claims.

Enrollment and Change Process

Upon hire, all new employees are eligible for employer-paid basic life insurance coverage and have the option to enroll in employee-paid supplemental life insurance. Employees that do not elect supplemental life insurance coverage, or elect to increase their supplemental life insurance coverage, are required to provide evidence of insurability at the time of enrollment or increase in coverage.

Invoice Review Process

Payments for life insurance benefits are based on monthly invoices prepared by Benefits staff. Benefits staff generates the invoice by manually entering benefit coverage amounts into the appropriate fields of the invoice template. The template automatically calculates the premium amount by applying the contracted premium rates to the coverage levels entered. Benefits staff utilizes reports generated from the Lawson payroll system (payroll system) to aid in the invoice generation and review process. These reports contain detailed life and supplemental life information for each covered employee. Invoice review is performed by Benefits staff, and the invoice is approved for payment by the Benefits section manager.

Objectives, Scope, and Methodology

The objectives were to assess and test controls, policies, and procedures over administration and oversight activities of employee life insurance benefits, and to test compliance with policies, laws, and employee contracts governing these benefits.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.[1] The components and principles that were evaluated as part of this audit are:

- Control Activities
  - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.

The methodology consisted of assessing and testing the enrollment process for life and supplemental life insurance, reconciling benefits outlined in the employee contracts to source documents, assessing the invoice preparation process and testing invoices for accuracy, compliance with policies and contract provisions, and testing claim payments for compliance with benefits outlined in employee contracts, policies, and relevant laws.

The scope was limited to the administration and oversight of life insurance and supplemental life insurance for administrative employees, TCU employees, Board Members, coach operators, and covered dependents, including claims, premiums, and invoices related to these benefits. The scope included all invoices paid in 2022. The scope also included all claims paid for covered members that deceased between January 1, 2019 and December 31, 2022, and a judgmental sample of life insurance enrollments during 2022. The judgmental sample was selected to provide equal coverage of administrative employees and coach operators. Since the sample was non-statistical, any conclusions are limited to the sample items tested. The scope also included investigation of a premium overpayment identified during testing of invoices and an error in the assessment of supplemental life insurance premiums that was communicated to affected employees during the audit.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1] See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at http://www.gao.gov/products/GAO-14-704G, for more information.

Audit Comments, Recommendations, and Management Responses

Life Insurance Benefits are not Accurately Outlined in Employee Agreements

The PSR and Coach Operator CBA, or employee agreements, outline basic life insurance benefits, including coverage levels, but do not include information and/or reference to age-related benefit reductions. Additionally, life insurance benefits provided by OCTA to the spouse/domestic partner, and each child of coach operators are not referenced in the Coach Operator CBA.

Per the ReliaStar Group Life Insurance Plan, benefit amounts decrease with age. For administrative employees, TCU employees, and Board Members, basic life insurance coverage benefits reduce to 50 percent starting at age 75, and supplemental life insurance benefits for employees, Board Members, and their spouses reduce to 65 percent at age 70, 45 percent at age 75, and 30 percent at age 80. For coach operators, basic life insurance coverage benefits are reduced to 65 percent at age 70 and 50 percent at age 75, and supplemental life insurance coverage benefits for coach operators and their spouse/domestic partner is reduced in the same manner described above. In addition, the Coach Operator CBA does not include reference to the age-related benefit reductions of the $250,000 Assault and Robbery Life Insurance benefit provided by OCTA. Conversely, basic life insurance benefits provided to each coach operator spouse/domestic partner and each child are not referenced in the Coach Operator CBA.

Testing of life insurance claim disbursements identified one instance in which the life insurance payment to the beneficiary of a coach operator was reduced by $8,750 due to age.

Recommendation 1:

Management should amend the PSR to accurately outline and/or reference age-related benefit reductions and should consult legal counsel about a resolution to the Coach Operator CBA language that does not disclose age-related deductions or benefits provided to spouse/domestic partner and children. Management should also consult legal counsel to determine if undisclosed reductions to benefits paid should be corrected.

Management Response:

The Benefits Section (within Human Resources [HR]) produces an extensive annual Benefits Guide that provides a detailed overview of all benefits available to OCTA employees and outlines all the age-related reductions for Basic Life, Accidental Death and Dismemberment, and Supplemental Life Insurance coverage. The Benefits Guide is available electronically to every employee during open enrollment and to new employees upon hire, and a hard copy is provided to each coach operator during open enrollment and upon hire. Legal counsel has been consulted regarding this response and when the

Fiscal Year 2024-2025 PSR is submitted to the Board for approval, a reference to the Benefits Guide will be added to the benefits section. A section will be added to the Coach Operator Benefits Guide related to the Assault and Robbery Insurance, including the age-related reductions, prior to the October 2023 open enrollment.

Legal counsel has been consulted and the information related to life insurance age-related reductions is sufficiently disclosed in the Benefits Guide.

Controls Related to System Input and Invoice Review Should be Improved

There is no process in place to review the accuracy of benefit entries into the payroll system. In addition, the monthly invoice process failed to address a premium variance that occurred each month over a two-year period.

Life insurance premium invoices are generated by Benefits personnel, who utilize payroll system reports to populate required fields into an invoice template. For a two-year period, the payroll system reports calculated a monthly premium total that was $3.20 more than the premium total calculated on the invoice template. Rather than investigate and resolve the difference, Benefits staff manually increased the total supplemental life insurance coverage on the invoice template to force the invoice to calculate a premium that matched the payroll system report. Internal Audit investigated and found the difference resulted from a data entry error that occurred in October 2020, but was not discovered or corrected until January 2023. The error resulted in the over-collection of premiums from one employee, totaling $76.80, and overpayment of the same to the insurance provider. Once discovered, the amount was returned to the employee.

Recommendation 2:

Management should develop policies and procedures to ensure that benefit entries into the payroll system are reviewed for accuracy. Procedures should also require timely investigation and resolution of variances between premiums calculated by the invoice template versus payroll system reports of premiums collected.

Management Response:

HR will enhance current procedures to include the review of system calculated premiums when validating system input. HR will also develop procedures for validating payroll system reports for premium invoice payments when variances occur.

Claims Process and Monitoring Should be Improved

Procedures for review of claim forms for accuracy and completeness, and monitoring of claim status, are not adequate. In addition, the life insurance provider has declined to provide evidence of compliance with California law governing post-mortem interest.

Internal Audit identified several instances in which claim forms were incomplete, lacking coverage information, completion of the claim checklist, and/or lacking an authorized Benefits staff signature.

In one instance, it took over a year for a beneficiary to receive life insurance proceeds. This condition was uncovered when Internal Audit requested a copy of the original claim form and verification of payment. Benefits staff completed a new claim form during the audit and life insurance proceeds were distributed in April 2023.

In addition, the life insurance provider, VOYA, declined to provide evidence necessary to substantiate that the 0.5 percent interest rate applied to 12 of 14 claims tested complied with California law. The California Insurance Code (Code) states that "“…each insurer…that fails or refuses to pay the proceeds of…life insurance…within 30 days after the date of death of the insured shall pay interest, at a rate not less than the then current rate of interest on death proceeds left on deposit with the insurer..." Apart from the option for a beneficiary to receive a lump sum distribution, VOYA offers beneficiaries an option to leave the claim proceeds in an account with VOYA. Under this option, which is known as "Proceeds Held At Interest", the life insurance benefit is held by VOYA while earning interest at a declared rate. Under the Code, the post-mortem interest rate <u>cannot be less than</u> the declared rate of interest for these accounts. Internal Audit made several requests for evidence to substantiate the interest rate applied to these accounts; however, VOYA refused to provide such.

Recommendation 3:

Management should implement procedures to ensure accuracy, completeness, and timely submission of claim forms, and should monitor the timeliness of claim payments. Management should also consider further efforts to determine whether interest applied to proceeds complies with the Code.

Management Response:

HR will request claim payment confirmations and track submission of claim forms regularly. The VOYA website has been enhanced to validate form signature prior to submission. According to the 2022 Annual Report, VOYA has $741 billion in total assets and is a publicly traded company. VOYA is required to file Form 10-K annually with the United States (U.S.) Securities and Exchange Commission. VOYA, the insurance subsidiary, is a regulated insurer, subject to comprehensive regulation and supervision under U.S. state and federal laws. VOYA is licensed and regulated in each state where it conducts insurance business. HR will continue to request documentation for interest applied to proceeds in compliance with Insurance Code.

Discrepancies in Payment and Assessment of Supplemental Life Insurance Premiums

Supplemental life insurance premiums calculated and paid to VOYA for December 2021, were overpaid because Benefits staff prematurely adjusted the payroll system to reflect premium increases that were not effective until January 1, 2022. In addition, 53 employees were not charged updated premium rates effective January 1, 2023, because Benefits staff did not make appropriate changes in the payroll system to implement premium rate increases until February 2023.

Each month, Benefits staff generates an invoice utilizing payroll system data to calculate the premium amount due to VOYA. Each year, effective January 1st, premium amounts due for supplemental life insurance must be updated to reflect changes to premiums based on employee and/or spouse/dependent age on the first of the year. There are nine separate age brackets for employees and their spouses, and each age bracket has a premium rate assigned for every $1,000 in elected coverage. For example, an employee, age 44, would be required to pay $0.19 for every $1,000 in coverage; however, when that same employee turns 45, the premium rate would increase to $0.32 for every $1,000 in coverage at the beginning of the following year.

As a result of untimely updates to the payroll system, OCTA overpaid premiums by $953.90 to VOYA for December 2021, and undercharged employees $1,011.05 for premiums paid to VOYA in January 2023.

Recommendation 4:

Internal Audit recommends management implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances.

Management Response:

HR will implement controls for timely annual premium system updates to ensure accuracy and will reconcile payroll deductions to premiums paid