

**\*\*\*ATTACHMENTS\*\*\***

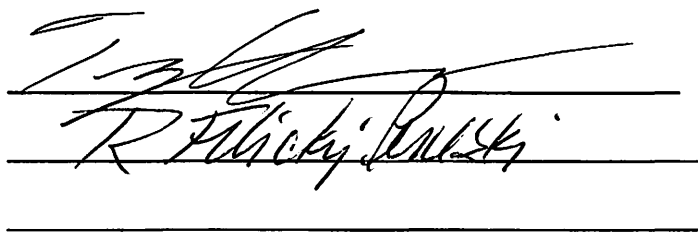
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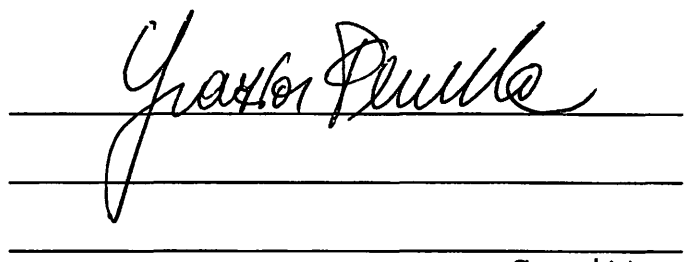
5.1

R. C. No. 21 - 21 - 22. By FINANCE AND PERSONNEL COMMITTEE. May 17, 2021.

Your Committee to whom was referred DIRECT REFERRAL R. O. No. 10-21-22 by Director of Human Resources and Labor Relations submitting the Internal Controls Assessment - City of Sheboygan - Benefits Administration Assessment dated April 19, 2021 which was prepared by CliftonLarsonAllen LLP ("CLA"); recommends the document be referred to the Committee of the Whole.

*refer to COW.*

  
\_\_\_\_\_  
R. Flick

  
\_\_\_\_\_  
Gary D. Pank

Committee

I HEREBY CERTIFY that the foregoing Committee Report was duly accepted and adopted by the Common Council of the City of Sheboygan, Wisconsin, on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Dated \_\_\_\_\_ 20\_\_\_\_, \_\_\_\_\_, City Clerk

Approved \_\_\_\_\_ 20\_\_\_\_, \_\_\_\_\_, Mayor

III

**DIRECT REFERRAL TO FINANCE AND PERSONNEL COMMITTEE**

R. O. No. 10 - 21 - 22. By DIRECTOR OF HUMAN RESOURCES AND LABOR RELATIONS.  
May 10, 2021.

Submitting the Internal Controls Assessment - City of Sheboygan - Benefits Administration Assessment dated April 19, 2021 which was prepared by CliftonLarsonAllen LLP ("CLA").

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Director of Human Resources  
and Labor Relations

Create Opportunities

We promise to know you and help you.



April 19, 2021

Internal Controls Assessment

## City of Sheboygan – Benefits Administration Assessment

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WEALTH ADVISORY  
OUTSOURCING  
AUDIT, TAX, AND  
CONSULTING

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## Background

During 2020, the City of Sheboygan's Human Resource Department (HR) had undergone various personnel and benefit administration changes. After these changes, various questions have arisen related to policies, procedures, and the overall administration of benefits for current and former city employees. As a result, the City's Administrator and Director of HR and Labor Relations contacted CliftonLarsonAllen, LLP, and engaged the firm to complete an Internal Controls Assessment of the Benefits Administration through facilitated discussions with various City personnel. (Note: This assessment cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.)

## Executive Summary

### Key Findings:

When inquired, HR personnel were unable to provide details related to the overall transactional completeness and accuracy of claims, premiums, benefits, and other contractual liabilities related to current and retired employees. In addition, our assessment identified a specific **High** Risk Finding in which City finance personnel were unaware of some of the relationship between Payroll and Benefit transactions and the corresponding financial reporting. Specifically noted: 1) there was no defined policy for overriding the established benefits plan 2) there was no ability of personnel to determine whether the Fire Department's "Sick Leave Pool" (i.e., Pre – 1985 Pool of Donated Sick Leave estimated to be \$1.2M) liability is appropriately recorded and 3) the Police Department Employees were receiving both Good Attendance Credits and Sick Leave Pool Credits for hours accrued over 1,150. The Good Attendance Credits were recorded in the MUNIS System while the liability for the Sick Leave Pool was not recorded to the financial statements. These findings indicate gross negligence with regard to the design and execution of process and controls over financial reporting.

As a result of these findings, the City's **Control Environment**<sup>1</sup>, is considered deficient and is defined as a **Material Weakness**<sup>1</sup>.

Establishing a sound Control Environment demonstrates a commitment of integrity and ethical values at all levels of an organization. Establishing this environment assists current and future teams by:

- 1) Setting the appropriate tone at the top;
- 2) Providing adequate direction on policy, procedures and controls; and
- 3) Ensuring that established governance is maintained and followed.

### Recommendation:

To the extent practical, the City of Sheboygan should focus their remediations efforts on:

- 1) The governance over new and/or existing payroll & benefit policies, procedures and controls;
- 2) Validating the completeness and accuracy over payroll and benefit transactions;
- 3) Increased Finance Department oversight of payroll & benefit transactions included in its financial reports;
- 4) Validating the Pre-2021 impact of irregular and potentially improper payroll & benefit transactions;
- 5) Completing an assessment of current processes and controls within the City's Purchasing and Financial Reporting Departments; and
- 6) Performing an annual fraud risk assessment.

Specifically, with the assistance and cooperation of the City's Finance Department, the HR Department should immediately complete a 'transaction map' to ensure all compensation and benefit related charges and liabilities are completely and accurately reflected within the City's financial statements.

See the **Statement of Aggregated Deficiencies**, beginning on page 7, for a detailed listing of processes reviewed, risks identified, and leading practice recommendations.

Overall, if issues surrounding the Control Environment, as well as the uncertainty around the completeness and accuracy of financial statements persist, the City will remain exposed to fraud, financial and reputational risks.

<sup>1</sup> See **Appendix I – Definitions** for additional details.



## Objectives and Scope

The objective of the Benefits Administration Internal Audit Assessment was to review and evaluate current processes and controls against leading practices, as well as to propose future state changes that will help mitigate risks and better support internal controls.

CLA performed a Benefits Administration Internal Controls Assessment, for the City of Sheboygan, under the direction of management. The following areas were in-scope for this engagement:

- Internal Administrative Controls
- Past Practices
- Application of Policies and Procedures
- Benefits included:
  - Short-term and long-term disability premium reporting
  - The application and reporting of spousal surcharge waivers
  - The application of HSA payments to retirees
  - Manual overrides of specific prescription benefits
  - Administration of short-term benefits
  - Chamber of Commerce purchases/cash benefits
  - Distribution of gift cards and other personal benefits
  - Police and Fire Department sick bank management and monitoring
  - Other identified Benefits areas

(Note: For all services provided, management agreed to assume all managerial responsibilities; oversight of the services; as well as the evaluation and adequacy of the conclusions reached.)



## Procedures Performed

Various techniques were used to assess the effectiveness of the internal controls over the administration of benefits for the City of Sheboygan. Techniques utilized included, but were not limited to, gathering supporting documents (i.e. describing current state processes (e.g., policies, procedures, flowcharts, reconciliations, analyses, etc.), conducting walkthroughs and interviews with members of the city's Human Resource, Finance and Administrative Departments.

- Human Resources
  - Vicky Schneider, Director of Human Resources and Labor Relations
  - Sandy Halvorsen, Compensation Administrator
  - Denise Clarke, HR Generalist
- City Administration
  - Todd Wolf, City Administrator & Comptroller
- Fire Department
  - Eric Montellano, Fire Chief
  - Dean Klein, Assistant Chief
- Police Department
  - Christopher Domagalski, Police Chief
- USI (Benefits Broker) - <https://www.usi.com/>
- Finance
  - Daniela Tainer-Partipilo, Interim Finance Director

We would like to acknowledge and thank management with whom we interacted. The time, effort, and insight they provided were instrumental in our understanding of the former and current state processes and procedures. In addition, upon our request for answers and supporting documentation, they promptly provided us with necessary information to complete our assessment.



## Closing

We wish to extend our appreciation to management and staff for their timely cooperation and assistance during the project.

\* \* \* \* \*

This report has been prepared in accordance with Statement of Standards for Consulting Services issued by the American Institute of Certified Public Accountants and is solely for use by management. It is not intended for use, in whole or in part, by outside parties without the specific consent of CliftonLarsonAllen LLP.

*CliftonLarsonAllen LLP*

April 19, 2021

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## Statement of Aggregated Deficiencies

Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
City Administration	Fire Department sick bank	Policies and Procedures	The City has not developed defined Policies & Procedures to manage the Fire Department's sick leave pool.	The failure to have documented Processes puts the City at risk in the event a Fire Fighter suffers an injury/illness and is denied a pay-out from the pooled time. By not recognizing the liability the City is misstating their financials. In the current union contract there is some discretion allowed the Chief to utilize or pay days from the sick leave pool; in some cases that level of discretion has the potential to be construed as discriminatory.	The City should document the policies and procedures around the Fire department's sick leave pool by defining pool eligibility, calculation of benefits, term of benefits, and delegation of authority surrounding updates and/or modifications to the administration of it.  The Union contract was recently entered into, the City will not be able to re-negotiate the contract for another 3 years. The City might consider separately negotiating with the union to value the liability at the 1985 dollar values and to pay out liability by purchasing short-term disability contracts for union fire fighters until the funds are exhausted and then transition these policies over to each individual union member.	1
Finance	Fire Department sick bank	Reconciliation	The Fire Department's sick leave pool represents time donated from the 1960's through 1984 and there are approximately 3,300 days (8 hrs/day) included within the pool. Through discussions with all of the parties involved, it is our understanding that the liability is not included within the City's Financial Statements.	Liabilities are not properly recorded to general ledger.	The City should also work with the Union to properly value the liability, and ensure it is properly recorded within the financial statements.	1



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Entity Level Controls	Control Environment	Code of Conduct	There currently is no "Code of Business Conduct and Ethics" acknowledgement included within the Employee Handbook that is reviewed and acknowledged by all employees.	Without the proper tone from organizational leadership, the organization is susceptible to increased reputational risks, which can be significant as strategic, operating, and financial risk.	Employees must sign the Code of Conduct and Ethics on an annual basis. That includes language that states City employees will be disciplined up to an including dismissal for failure to follow the Code of Conduct and Ethics.	2
Entity Level Controls	Control Environment	Whistleblower	There currently is no Employee Hotline" for an employee to report unethical and/or inappropriate activities.	Without the proper tone from organizational leadership, the organization is susceptible to increased reputational risks, which can be as great as strategic, operating, and financial risk. In addition, 43% of all frauds are identified via Whistleblowers versus an annual audit program.	We recommend that the organization implement an anonymous forum for employees to communicate fraudulent, erroneous, and unethical or immoral activities.	2
Human Resources	Short/Long Term Disability	Enrollment - Annual	On an annual basis, American Fidelity manages the City's open enrollment process. After the open enrollment period ends American Fidelity submits a census with every employee and the benefits they have selected. This census is then used to update Munis but there is no formal documentation that Munis has been accurately updated.	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation between the American Fidelity census and the Munis upload should be completed by personnel within the Human Resource Department. In addition, a review of the reconciliation should be completed by someone other than the person who'd performed the initial upload and reconciliation. This is generally completed by someone one level above the preparer.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Short-term/long-term disability	Enrollment - Updates and Modifications	For employees hired in the period between open enrollments American Fidelity will submit a form to HR with the individual's benefit selection and these selections are entered into Munis.	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation between the American Fidelity bi-weekly monthly and the Munis upload should be completed by personnel within the Human Resource Department. In addition, a review of the reconciliation should be completed by someone other than the person who'd performed the initial upload and reconciliation. This is generally completed by someone one level above the preparer.	2
Human Resources	Short-term/long-term disability	Administration of Benefits	Currently, American Fidelity manages the processing of all Short-term/long-term disability claims.  Independently, the City has allowed employees to donate vacation time to co-workers in an effort to subsidize decreases in pay as a result of the disability claim (i.e. STD covers 60% wages).	The processing of payment of donated time to employees is in violation of the short-term and long-term disability insurance benefits.  In addition, these payments would appear to contradict any previously approved, standard employee compensation and benefits packages.	We recommend that the organization discontinue this practice, and encourage employees to manage these efforts outside of the City's Administrative Services.	2
Finance	Short-term/long-term disability	Premium Payments	On a monthly basis, American Fidelity submits an invoice for the premiums of all employee benefits under their administration. The invoice is received by Human Resources and submitted to Accounting for payment without any review or approval.	The lack of review of employees (current and retired) benefit premiums could result in erroneous and inaccurate benefit payments.	The American Fidelity benefit payments should be reconciled to the organization's payroll records and tied to supporting documentation to ensure their completeness and accuracy. In addition, this reconciliation should be reviewed and approved by someone other than the person preparer it. Leading practice would indicate that the preparer and a primary level of review should be completed by the Human Resource Department. Following that, a secondary review would be completed by personnel within Finance Department prior to the authorization of the payment.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Enrollment - Annual	<p>On an annual basis, American Fidelity manages the City's open enrollment process. After the open enrollment period ends American Fidelity submits a census with every employee and the benefits they have selected. This census is then used to update Munis but there is no formal documentation that Munis has been accurately updated.</p> <p>In addition, the City has allowed certain individuals to enroll with UHC (United Healthcare) as their provider for Medical Insurance.</p>	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation between the American Fidelity, and UHC, census and the Munis upload should be completed by personnel within the Human Resource Department. In addition, a review of the reconciliation should be completed by someone other than the person who'd performed the initial upload and reconciliation. This is generally completed by someone one level above the preparer.	2
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Enrollment - Updates and Modifications	<p>For employees hired in the period between open enrollments AF will submit a form to HR with the individual's benefit selection and these selections are entered into Munis.</p> <p>In addition, the City has allowed certain individuals to enroll with UHC (United Healthcare) as their provider for Medical Insurance.</p>	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation between the American Fidelity, and UHC, bi-weekly and/or monthly and the Munis upload should be completed by personnel within the Human Resource Department. In addition, a review of the reconciliation should be completed by someone other than the person who'd performed the initial upload and reconciliation. This is generally completed by someone one level above the preparer.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Finance	Employee Benefits (Health, Dental, Vision etc.)	Premium and Claim Payments	On a monthly basis, the City's Insurance providers submit an invoice for the premiums and claims for all employee benefits/claims processed under their administration. The invoices are received by Human Resources and submitted to Accounting for payment without any review or approval.	The lack of review of employees (current and retired) benefit premiums/claims could result in erroneous and inaccurate benefit payments.	The American Fidelity benefit payments should be reconciled to the organization's payroll records, and tied to supporting documentation to ensure their completeness and accuracy. In the same manner, the organization should reconcile their claim payments to the claim details provided by the provider. In addition, this reconciliation should be reviewed and approved by someone other than the person preparer it. Leading practice would indicate that the preparer and a primary level of review should be completed by the Human Resource Department. Following that, a secondary review would be completed by personnel within Finance Department prior to the authorization of the payment.	2
Finance	Employee Benefits (Health, Dental, Vision etc.)	Administration of Benefits - Manual Overrides	Per discussion with USI, the City's Insurance Broker, on a monthly basis, the City's Insurance providers submit invoices for all employee claims processed. (Note: The claims processed include any and all manual overrides. It was also noted during our discussion that these overrides are not specifically identifiable within the claims report.) The invoices are received by Human Resources and submitted to Accounting for payment without any review or approval.	The lack of review of employees (current and retired) claims could result in erroneous and inaccurate payments.	The documentation collected to authorize a manual override should be maintained. In addition, upon the receipt of the month-end claims report, that evidence should be reconciled against the report to support any overrides processed.  This reconciliation should be reviewed and approved by someone other than the person preparer it. Leading practice would indicate that the preparer and a primary level of review should be completed by the Human Resource Department. Following that, a secondary review would be completed by personnel within Finance Department prior to the authorization of the payment.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	HSA Contributions	Enrollment - Annual	City Employees participating in the City sponsored health plan receive a donation to their HSA account based on their participation in the plan, a set amount for single enrollment and double that amount for family enrollment.	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation of the eligible HSA donation recipients should be compared to those marked to receive the payments within Munis.	2
Human Resources	HSA Contributions	Enrollment - Updates and Modifications	City Employees participating in the City sponsored health plan receive a donation to their HSA account based on their participation in the plan, a set amount for single enrollment and double that amount for family enrollment.	The lack of review, both annually and throughout the year, of employees (current and retired) receiving benefits could result in erroneous and inaccurate premium payments and benefits administered.	A reconciliation of the newly eligible HSA donation recipients should be compared to those marked to receive the payments within Munis.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Finance	HSA Contributions	Administration of Benefits - HSA Contributions	City Employees participating in the City sponsored health plan receive a donation to their HSA account based on their participation in the plan, a set amount for single enrollment and double that amount for family enrollment.	Employees or Retirees who are not entitled to a contribution are improperly given a HSA contribution.	<p>Once the listing of employees entitled to a HSA contribution is compiled a second knowledgeable employee should review the listing comparing it to the supporting documentation and sign-off indicating their review. Following that, a secondary review would be completed by personnel within Finance Department prior to the authorization of the payment.</p> <p>In addition, this reconciliation should be reviewed and approved by someone other than the person preparer it. Leading practice would indicate that the preparer and a primary level of review should be completed by the Human Resource Department. Following that, a secondary review would be completed by personnel within Finance Department prior to the authorization of the payment.</p>	2
Accounting	Retirement payouts Review and Approval	Management Review and Approval	All retirement payouts are prepared by the Compensation Administrator and recorded in the GL by Accounting. There is no formal review and approval prior to the liability being entered into MUNIS.	Retirement Payouts that are not independently reviewed and approved by a knowledgeable financial professional exposes the company to the risk that the calculation is not valid or inaccurate and exposes the company to heightened risk of fraud.	Prior to the checking of checks, formal supporting documentation, and approval must be obtained to ensure payments made are reasonable and accurate.	2



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank								
Entity Level Controls	Control Environment	Delegation of Authority	During our discussion with HR and Accounting representatives CLA was made aware of instances where invoices were paid without proper approval. Some of these involved payments using only email documentation as support.	Expenditures incurred may not be properly approved.	<p>The creation and implementation of City-wide Delegation of Authority Matrix is to be completed.</p> <ul style="list-style-type: none"> <li>•Primary operating categories are to be established and defined (e.g. Projects, Operating Expenses, Inventory Expenses, Balance Sheet Disposals and Write-offs, Treasury, etc.)</li> <li>•Secondary operating categories are to be established and defined (e.g. Included, but are not limited to: Operating Expenses: Utilities, Ordinary Maintenance, Department Consumables, etc.)</li> <li>•Inventoriable Items: Highway Supplies (road salt, asphalt supplies, signs, etc.) and Technology Service Supplies (Computers, Cable, Wireless Access Points, G-BICs, etc.)</li> </ul> <p>(Note: In general, these will need to be defined, by the department, to properly identify and classify their significance.)</p> <ul style="list-style-type: none"> <li>•Monetary approval thresholds are to be established and defined by the Primary and Secondary categories, as well as the Department.</li> </ul> <p>For example:</p> <table border="0"> <tr> <td>\$0-\$999</td> <td>Functional Manager</td> </tr> <tr> <td>\$1,000-4,999</td> <td>Department Director</td> </tr> <tr> <td>\$5,000-\$24,999</td> <td>City Administrator</td> </tr> <tr> <td>Greater than \$25,000</td> <td>City Council</td> </tr> </table>	\$0-\$999	Functional Manager	\$1,000-4,999	Department Director	\$5,000-\$24,999	City Administrator	Greater than \$25,000	City Council	3
\$0-\$999	Functional Manager													
\$1,000-4,999	Department Director													
\$5,000-\$24,999	City Administrator													
Greater than \$25,000	City Council													



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Entity Level Controls	Control Environment	Policies and Procedures	The City has not developed defined Policies & Procedures to manage the company's Human Resources, Purchasing, Accounting and Financial Reporting Processes. Specifically related to the assessment of Benefits Administration, the policies and procedures would identify the Human Resource/Accounting tasks utilized to record and recognize Human Resource transactions, e.g., Benefit Eligibility, Benefit Payments, Short Term / Long Term Disability, Retirement, Severance, Health Claim Expenditures and Other (i.e. Chamber Cash) which have a financial statement impact.	The failure to have documented policies and procedures puts the City at risk in the event Key Personnel are unable to perform the required work. The lack of defined Policies and Procedures can lead to numerous issues when preparing the company's financial statements, safeguarding its assets and the organization's ability to operate effectively.	The City should complete an evaluation of its current existing policies and procedures, determine those that exist and those that do not. In addition, each department should be required to complete an assessment of their policies and procedures on a 3-5 year rotation to ensure their completeness and accuracy.  Specifically, based on this assessment we recommend the following departments also be assessed immediately: 1) Finance, and 2) Purchasing.	3
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Benefit Providers Selection Processes	Currently, there are two health insurance providers (UMR and United Healthcare) under contract with the City of Sheboygan. In addition, contract with American Fidelity appears to indicate that they are to have 100% enrollment of City Employees. This appears to indicate that the City should not be under contract, or allowing United Healthcare insurance to employees.	Without proper procedures in place, the city is at risk of entering into unfavorable contracts without appropriate approval from the City's Officials and/or Administrators.	A health and benefits committee should be established to ensure benefit provider have been fully vetted, and authorized by the appropriate City Officials and/or Administrators.  Meeting minutes should be compiled, maintained, and circulated to ensure topics and decisions are shared among stakeholders.	3
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Enrollment - Spousal Surcharge	Using Munis, employees who selected Employee and Spouse or Family insurance coverage are identified and a list of those individuals is created.	Employees who do not qualify for the surcharge waiver were allowed to avoid the \$1,200 surcharge via an informal waiver.	The listing of individuals carrying spousal or family coverage should be obtained from Munis. A secondary review of the listing should be compared to supporting documentation and verified by a second independent individual. Evidence of the review should be maintained.	3



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Enrollment - Spousal Surcharge	Annually a letter submitted to the City employees to verify that their spouse is not eligible for employer provided insurance. Individuals who select City Insurance but whose spouse is eligible for coverage through their employer are assessed a \$1,200 fee. In addition, the fee is assessed for employees who do not reply to the letter in the prescribed time frame. There are currently no formal controls around this process.	Employees who do not qualify for the surcharge waiver were allowed to avoid the \$1,200 surcharge.	Using the generated list of individuals carrying spousal or family coverage letters should be submitted regarding the spouse's availability for alternative health insurance coverage. Responses to the letter should be tracked and the fee if applicable assessed. The completed documentation should be reviewed by a second employee.	3
City Administration	Employee Benefits (Health, Dental, Vision etc.)	Administration of Benefits - Manual Overrides	There are no specific policies or procedures authorizing or restricting the use of manual medical coverage overrides.	Improperly approved medical benefit overrides will result in inaccurate premiums for employees, and an underfunding of the City's health benefits. In addition, this could open the City up to additional liability if any of the overrides had led to additional medical procedures or may be construed as discriminatory.	City Officials and/or the administrator should define the use and/or restriction of manual overrides of medical procedures.	3
City Administration	Employee Benefits (Health, Dental, Vision etc.)	Administration of Benefits - Manual Overrides	If allowable, there is no formal delegation of authority to ensure manual overrides are appropriately reviewed and approved prior to processing.	Improperly approved benefit overrides would result in inaccurate (i.e. lower) premiums for employees, and an underfunding of the City's health benefits. In addition, this could open the City up to additional liability if any of the overrides had led to additional medical procedures.  (For example, if an administrator had authorized an elective surgery (i.e. gastro bypass), and there were complication, the City would be liable for any and all additional surgeries to mitigate the complications.)	City Officials and/or the administrator should define the appropriate level of authority (e.g. HR Director, City Administrator, and/or a Benefits Committee) required to appropriately approve medical procedures and prescription that are not covered under the employee benefit plan.	3



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Chamber of Commerce purchases/cash benefits	Policies and Procedures	As a benefit of using a City approved health provider employees were given "Chamber Cash". This program was not an 'official' City benefit.	Improperly authorization of incentive programs could lead to erroneous transactions.	City Officials and/or the administrator should define the use and/or restriction of any incentive programs. If the City decides to allow this program a formal process should be established for approving the issuance and requiring proper documentation.	3
Finance	Chamber of Commerce purchases/cash benefits	Administration of Benefits - Chamber Cash	As a benefit of using a City approved health provider employees were given "Chamber Cash". This program was not an official City benefit but was available to individuals who were aware of the program via flyers. There was no formal vetting of the expenses the employees were claiming, and accounting did not require back-up prior issuing checks for the purchase of "Chamber Cash"	Improperly issued "Chamber Cash" exposes the City to waste or abuse.	The documentation collected to authorize a Chamber Cash should be maintained and utilized to support check requests.  Leading practice would indicate that the policy, supporting documentation, and management approval would be utilized for these type of check requests prior to the processing of each payment.	3
Human Resources	Police Department sick bank management and monitoring	Policies and Procedures/ Management Review and Approval	The City has not developed defined Policies & Procedures to manage the Police Department's sick leave pool. The Police Department's sick leave pool represents time donated from the current officers in excess of 1,150 hours. There is no formal City policy regarding the use of this time, and it is not tracked in Munis indicating the liability is not recorded on the City's Balance sheet.	The failure to have documented Processes puts the City at risk in the event an Officer suffers an injury/illness and is denied a pay-out from the pooled time. In the current union contract, there is some discretion allowed the Chief to utilize or pay days from the sick leave pool; in some cases that level of discretion has the potential to be construed as discriminatory.	The City should formally document the policies and procedures around the Police department's sick leave pool and record the resulting liability and calculated the correct liability value using some expedient manner.  The City might consider separately negotiating with the union to pay out the liability by purchasing short-term disability contracts for union police officers until the funds are exhausted and then transition these policies over to each individual union member.	3



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Retirement payouts Review and Approval	Management Review and Approval	All retirement payouts are prepared by the Compensation Administrator and recorded in the GL by Accounting. There is no formal review and approval prior to the liability being entered into MUNIS.	Retirement Payouts that are not independently reviewed and approved by a knowledgeable financial professional exposes the company to the risk that the calculation is not valid or inaccurate and exposes the company to heightened risk of fraud.	Based upon the retirees department HR should create an excel workbook for the retirement calculation. The excel workbook should include an Instruction Tab, which pulls in data from the appropriate Contract, and perhaps has locked cells, so that the only details being added are those directly from Munis. All values should be supported by the contract and minis data.	3
Human Resources	Retirement payouts Review and Approval	Management Review and Approval	All retirement payouts are prepared by the Compensation Administrator and recorded in the GL by Accounting. There is no formal review and approval prior to the liability being entered into MUNIS.	Retirement Payouts that are not independently reviewed and approved by a knowledgeable financial professional exposes the company to the risk that the calculation is not valid or inaccurate and exposes the company to heightened risk of fraud.	All Retirement Payouts should be reviewed and approved in accordance with established signature guidelines.	3
Purchasing	Employee Benefits (Health, Dental, Vision etc.)	Purchasing Policies	Currently, there are two health insurance providers (UMR and United Healthcare) under contract with the City of Sheboygan. In addition, contract with American Fidelity appears to indicate that they are to have 100% enrollment of City Employees. This appears to indicate that the City should not be under contract, or allowing United Healthcare insurance to employees.	Without appropriate purchasing policies and procedures, the city is at risk of entering into unfavorable contracts without appropriate approval from the City's Officials and/or Administrators.	For any large purchase is to do an RFP process of 2-3 vendors for proper price comparison and stewarding of the City's tax roll. Additionally, city ordinance may already require more than one quote for new contracts.	4



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Purchasing	Employee Benefits (Health, Dental, Vision etc.)	Delegation of Authority	Currently, there are two health insurance providers (UMR and United Healthcare) under contract with the City of Sheboygan. In addition, contract with American Fidelity appears to indicate that they are to have 100% enrollment of City Employees. This appears to indicate that the City should not be under contract, or allowing United Healthcare insurance to employees.	Without appropriate delegations of authorities, the city the city is at risk of entering into unfavorable contracts without appropriate approval from the City's Officials and/or Administrators.	City Officials and/or Administrators should define an appropriate delegation of authorities related to the review and approval of contract related to employee compensation and benefits.	4
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Enrollment - Spousal Surcharge	It is our understanding that the prior Benefits Coordinator had been waiving the spousal surcharge for herself and potentially other City Employees.	Employees who do not qualify for the surcharge waiver are allowed to avoid the \$1,200 surcharge.	A forensic analysis should be completed to review spousal surcharges, likely dating back several years, to compare and determine, to the extent possible, the magnitude and significance of the issue.	4



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources	Employee Benefits (Health, Dental, Vision etc.)	Administration of Benefits - Manual Overrides	<p>The City's benefit (health, dental, vision, etc.) claims are managed and processed by their providers, based on negotiated coverages. Based on those coverages, the insurers process claims and/or co-payments per the defined plan. Once processed, the covered amounts are paid by the City, with the deductible and co-payments amounts processed by the employees (i.e. current and former) enrolled in the plans.</p> <p>Seeing as though the City is Self-Insured, they have the ability to process Manual Overrides for any/all procedures or medications regardless of those stated within negotiated/approved benefit packages.</p> <p>Prior to Jan 2021, the prior Benefits Administrator was contacting USI, their Insurance Broker, and manually overriding an unknown amount of medically requested prescriptions/procedures.</p>	<p>Improperly approved benefit overrides would result in inaccurate (i.e. lower) premiums for employees, and an underfunding of the City's health benefits. In addition, this could open the City up to additional liability if any of the overrides had led to additional medical procedures.</p> <p>(For example, if an administrator had authorized an elective surgery (i.e. gastrobypass), and there were complication, the City would be liable for any and all additional surgeries to mitigate the complications.)</p>	A forensic analysis of previously processed overrides should be completed to determine the magnitude and potential pending liabilities of overrides processed.	4



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Human Resources/ Accounting	HSA Contributions	Administration of Benefits - HSA Contributions	According to management, in prior years some retirees participating in the benefits plans received a donation into their HSA account. This was determined to have been completed within error.	The lack of review of employees (current and retired) claims could result in erroneous and inaccurate payments.	A forensic analysis should be completed to review HSA contributions, likely dating back several years, to compare and determine, to the extent possible, the magnitude and significance of the issue.	4
Human Resources	Chamber of Commerce purchases/cash benefits	Administration of Benefits - Chamber Cash	The prior benefits administrator had been authorizing Chamber Cash Payments without proper segregation of duties and delegation of authorities. Over the course of several years \$13K in Chamber Cash Payments has been paid out.	Improperly issued "Chamber Cash" exposes the City to waste or abuse.	A forensic analysis of previously processed Chamber Cash payments should be completed to determine the magnitude, accuracy, and usage of certificates granted.	4



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Entity Level Controls	Control Environment	Enterprise Risk Assessment	The City has not developed and implemented a formal Enterprise Risk Management (ERM) Program. ERM is a process that identifies, assesses, and prepares an organization to address those risks, dangers, hazards, and potential disasters that could interfere with the entity's operations and objectives.	<p>An ERM process provides an organization with a framework for identifying particular events or circumstances that are relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and a monitoring process. By identifying and proactively addressing risks and opportunities, organizations can protect and create value for the entity's stakeholders. When properly implemented, ERM will enable greater enterprise-wide discipline and reliability to help better manage risks. Some benefits would include:</p> <ul style="list-style-type: none"> <li>• Reduces chance of crises and problems, thereby allowing leadership to focus more on mission priorities</li> <li>• Helps protect the entity's reputation</li> <li>• Identifies, elevates, and manages risks so that the right risks get to the right people at the right time</li> <li>• Creates a culture where risk identification and elevation is encouraged and rewarded</li> <li>• Builds line-of-sight into risks across organizational silos to create the opportunity to leverage mitigation approaches for risks with similar root causes</li> <li>• Provides greater knowledge and insights into enterprise risk to improve resource allocation and strategic decision-making</li> </ul>	The City should consider developing and implementing an ERM Program to enhance their ability to detect, assess and manage risks impacting the City and its operations. The ERM program would be reviewed and updated annually in order to reflect the changing environment that the City operates.	5



Process	Sub-Process	Control Description	Current State	Risk Description	Leading Practice / Recommendation	Priority Rank
Entity Level Controls	Control Environment	Segregation of Duties	The City has not developed and implemented a Segregation of Duties Matrix that identifies the both the System Access and Employee Responsibilities. Currently employees are able to initiate retirement payout transactions and authorize payments for those payments.	<p>A combination of two or more of the responsibilities, which are noted below, creates SOD conflicts and subjects an organization to the potential occurrence of fraud as well as its concealment.</p> <p>To the extent practical, the following activities are to be segregated amongst employees:</p> <ul style="list-style-type: none"> <li>• the ability to execute benefit transactions;</li> <li>• the ability to record benefit transactions;</li> <li>• having custody of assets; and</li> <li>• having responsibility to reconcile the transaction.</li> </ul>	<p>The organization should regularly perform a review of organizational duties to ensure no high risk segregation of duties conflicts exist.</p> <p>On a semi-annual to annual basis, an access review is initiated to ensure authorized personnel have access to financial systems and transactions.</p> <p>On an annual basis, an access review is initiated to ensure authorized personnel have access to bank accounts.</p>	5



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## Appendix I – Definitions

**Material Weakness** - AICPA AU Section 325 defines a *material weakness* as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Indicators of material weaknesses in internal control include identification of fraud, whether material or not, on the part of senior management; ineffective oversight of the entity's financial reporting and internal control by those charged with governance. Root causes for possible material weaknesses: absent or inadequate segregation of duties within a significant account or process; absent or inadequate controls over the safeguarding of assets; inadequate design of IT general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs.

**Control Environment** - The control environment describes a set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. According to the Institute of Internal Auditors (IIA), a control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to 1) achieve its strategic objectives, 2) provide reliable financial reporting to internal and external stakeholders, 3) operate its business efficiently and effectively, 4) comply with all applicable laws and regulations, and 5) safeguard its assets.

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**CITY OF SHEBOYGAN**

**REQUEST FOR COMMITTEE OF THE WHOLE CONSIDERATION**

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**ITEM DESCRIPTION:** R.O. No. 10 – 21 – 22 from the Director of Human Resources and Labor Relations submitting the Internal Controls Assessment: City of Sheboygan – Benefits Administration Assessment, dated April 19, 2021, regarding the Human Resources Department benefit program which was prepared by CliftonLarsonAllen LLP (CLA).

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**REPORT PREPARED BY:** Vicky Schneider, Director of Human Resources and Labor Relations

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**REPORT DATE:** June 4, 2021

**MEETING DATE:** June 7, 2021

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**FISCAL SUMMARY:**

Budget Line Item: N/A  
Budget Summary: N/A  
Budgeted Expenditure: N/A  
Budgeted Revenue: N/A

**STATUTORY REFERENCE:**

Wisconsin N/A  
Statutes:  
Municipal Code: N/A

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**BACKGROUND / ANALYSIS:** In December 2020, City Administration identified concerns regarding the benefits administration program within the Human Resources Department. CLA was engaged to provide an in-depth assessment of the benefits programs, and the resulting assessment was provided. The assessment was conducted over a several month time-frame with exchanging of information, staff interviews, and discussions with management.

**STAFF COMMENTS:** Management, in coordination with CLA, has created a recommendation of prioritization to the items identified. The Finance Department and Human Resources Department have been working with staff to gather additional feedback regarding steps necessary to work towards the improvement recommendations provided by CLA. As a result of the report, work in key focus improvement areas is already in progress.

**ACTION REQUESTED:** Motion to recommend the Committee of the Whole receive and file R.O. 10-21-22.

**ATTACHMENT**

- I. R.O. 10-21-22