Office of Internal Audit

Sick Leave Reporting Audit

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Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 09.22.22;
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Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit
Electronically Signed 9/6/22

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Executive Summary

We completed an audit of the Sick Leave Reporting managed by the Division of Retirement Services (DRS). This audit was completed in accordance with the fiscal year 2022-2023 Biennial Audit Plan to evaluate the design and operating effectiveness of internal controls over the reporting of sick leave certification forms and access to the Accumulated Sick Leave (AcSL) application. This sick leave program is a fringe benefit only offered to State of Wisconsin employees.

Our audit focused on sick leave certification forms submitted by employers that were processed between January 1, 2021 and March 31, 2022. We identified a total of 3,587 sick leave certification forms processed during our audit period. We also reviewed DRS staff's review of anyone who received the 500-hour Supplemental Health Insurance Conversion Credit (SHICC) restoration and to ensure that the programming change to AcSL was deployed accurately. Finally, we reviewed access to the AcSL application to ensure access is appropriate based on job duties.

We excluded from our review the monthly deduction of health insurance premiums from members' sick leave credit accounts, notifications sent to members regarding their balance, and financial statement and actuarial related information.

Overall, we found some of the areas to be operating effectively with the Sick Leave Reporting process. However, we identified several opportunities for improvement for these processes to obtain greater internal controls and operational efficiency. Specifically, we provided the following recommendations:

- Adjust AcSL's programming to expand the date range for University of Wisconsin (UW) faculty or create a check box for UW faculty to receive an additional year of SHICC. Also, ensure ETF staff are reviewing that UW faculty have been granted the correct number of SHICC years. In addition, work with the UW and/or the Department of Administration's (DOA) Division of Personnel Management to document the UW faculty rule and include various scenarios of how it is applied in the ETF staff sick leave review manual.

- Maintain a log of issues ETF staff identify to determine if the issue continues to occur and if additional training is required. Also continue updating the sick leave training manual for employers and provide training sessions to them.

- Program AcSL for warnings when the unused sick leave hours are greater than the years of service multiplied by 130 hours and a similar calculation if the 500-hour SHICC restoration is selected. Also, require the Employer Notes section contain a statement whenever the 500-hour SHICC restoration is selected.

- The business owner of AcSL also reviews the access and that access is based on the employees' job duties.

- Ensure ETF staff review the category of employment compared to the employee's WRS category to ensure they are aligned. Adjust the words General/Executive and Protective on the sick leave form so they stand out.

- Work with DOA's Division of Personnel Management to determine how a year of service is determined, document the results, and make any adjustments necessary to AcSL's programming.

We also suggested that management consider programming My ETF Benefit System (MEBS) or its replacement to send an automated reminder email to employers to complete a sick leave certification form when a sick leave contract has been created. In addition, work with the Division of Trust Finance to obtain access to the annual insurance files that contain members' sick leave balances and review this information when questions/concerns with a member's balance occur.

Background

Sick leave is a fringe benefit offered to State of Wisconsin employees[1] that the number of hours accumulate without limit. At the time of retirement, disability, or death, these hours are converted using the employee's highest basic wage rate into sick leave credits or dollars. These dollars can only be used to pay for health insurance after leaving state service.

There are two sick leave programs: 1) The Accumulated Sick Leave Conversion Credit (ASLCC) Program that began in the early 1970s, and 2) the Supplemental Health Insurance Conversion Credit (SHICC) Program that began in 1995. ASLCC is a statutory benefit and SHICC is a benefit included in the biennial State of Wisconsin Compensation Plan prepared by DOA's Division of Personnel Management and approved by the Legislature's Joint Committee on Employment Relations.

The ASLCC dollar amount is based on the employee's unused sick leave hours multiplied by their highest basic hourly wage rate. The SHICC dollar amount is calculated based on the years of adjusted continuous service[2] (ACS) multiped by 52 hours per year for the first 24 years if in the general category of employment and 78 hours per year if in the protective category. For years of ACS over 24, those years are multiplied by 104 hours per year no matter what category of employment. The total SHICC hours are then multiped by the highest basic hourly wage rate to come up with a SHICC dollar amount. The ASLCC dollar amount and SHICC dollar amount are then added together to equal the certification total.

The SHICC program is only available to employees if they have at least 15 years of ACS with the state when terminating employment. In addition, the total number of SHICC hours cannot be greater than the employee's unused sick leave hours. However, there is one exception to this rule: If the employee uses at least 500 hours of sick leave for the same illness/injury within three years of retirement, disability, layoff, or death, 500 hours of sick leave is restored when calculating SHICC.

ETF encourages employers to complete their sick leave certification forms within 30 days after the member has terminated. To prevent the member from losing health insurance between their termination and when their sick leave certification form is approved by ETF, a sick leave contract is automatically created in MEBS when retirement is selected in DOA's PeopleSoft or UW's HR system if the member is under

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[1] Certain employees of authorities are also included in the program like University of Wisconsin Hospitals and Clinics, Wisconsin Housing and Economic Development Authority, etc.

[2] Adjusted continuous service is calculated based on the date the employee begins their employment with the state and excludes any breaks in state employment. Years of adjusted continuous service is different than years of creditable service under the WRS.

age 65 and not on Medicare. If the member is age 65 or older and has Medicare, then it will require ETF's approval to create the sick leave contract.

Some of the information on the sick leave certification form is entered by the employer and some is automatically calculated. The main information entered by the employer includes: unused sick leave hours, highest basic hourly wage rate, termination and ACS dates, and years of service in the General/Executive and/or Protective Categories. AcSL has been programmed to calculate the ASLCC, SHICC, and certification totals. In addition, other sick leave rules have been programmed in the application.

After the employer has entered all information on the sick leave certification form and submits it, an ETF employee reviews the form and assigns a risk ranking of easy, medium, or high depending on the complexity. An example of an easy sick leave certification form is retirement eligible and has an approved retirement application. Medium is when the member is not taking an immediate retirement annuity but has 20 years of WRS creditable service, and high is an amended certification form or UW academic staff.

The two main components of a sick leave certification form are the number of hours of unused sick leave and the highest basic hourly wage rate. The highest basic hourly wage rate is not something that ETF staff are able to verify, given they do not have access to the various employers' payroll data. The unused sick leave hours ETF staff have not been verifying, but there is information available and other ways this number could be verified and/or checked for reasonableness. For example, ETF staff in the Division of Trust Finance are receiving the employee's unused sick leave balance and sick leave used during the year as part of the annual insurance files. In addition, multiplying the employee's years of service by 130[3] hours should be close to their maximum unused sick leave hours.

UW faculty who are usually on a nine-month contract and have an ACS date of August or September that corresponds with the fall semester and, therefore, terminate at the end of the spring semester have not worked a full year to earn another year of service. However, an agreement was made between the UW and the Office of State Employment Relations (OSER)[4] at DOA that allows a faculty member to receive a full year of ACS at the end of a school year[5] for SHICC calculations only. The AcSL application has been programmed to add an additional year if the faculty staff question has been selected as "yes", and the termination date is May 15 – June 10, and the ACS

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[3] 130 hours is the maximum number of hours of sick leave most state employees can earn in one year.
[4] OSER is now called the Division of Personnel Management.
[5] The exception to this rule is if the employee started in the spring semester and ended after the fall semester they would also be eligible for an additional year of ACS.

date is August 15 – September 10. However, if the employee falls outside of at least one of these date ranges, an ETF staff must manually adjust the years of ACS.

500-hour SHICC Restoration

In 2019, staff completed a review of all people who received the 500-hour SHICC restoration after it was discovered that AcSL would allow anyone to receive it even if they did not have 15 years of ACS, which is required to receive it. In addition to having at least 15 years of ACS, the employee also must have used at least 500 hours of sick leave related to the same illness/injury within three years of retirement, disability, death, or layoff.

AcSL Application Access

The AcSL application uses roles that allow the user to complete certain activities related to sick leave certification forms. Depending on the role, the users might be able to process sick leave certification forms, apply monthly transactions against the sick leave conversion balance, or view the information.

Audit Objective and Scope

The audit objective was to review the sick leave reporting process to determine the extent to which these processes are working as intended and to ensure the internal controls were operating effectively. The scope of this audit included sick leave certification forms submitted by employers that were processed between January 1, 2021, and March 31, 2022. In addition, we also reviewed DRS staff's review of the 500-hour SHICC restoration to ensure that the programming change to the AcSL application was deployed accurately. We also reviewed access to the AcSL application to ensure access is appropriate based on job duties.

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

We excluded from our review the monthly deduction of health insurance premiums from members' sick leave credit accounts, notifications sent to members regarding their balance, and financial statement and actuarial related information.

Results and Recommendations

Positive Results

We found no exceptions in our testing of AcSL programmed calculations and business rules. We found that all members had health insurance or a qualifying exemption[6] when their sick leave certification form was processed. We also found the manuals and review materials documenting various scenarios for how ETF staff should review the sick leave certification forms helpful and very easy to follow. Finally, assigning a risk ranking on each sick leave certification form of easy, medium, or high depending on the complexity is a good control and working effectively.

Findings, Recommendations and Management Responses

Finding	Risk/Effect
1. *UW Faculty SHICC Years of Adjusted Continuous Service* We found six members that did not qualify or should have qualified for the additional year of SHICC based on their start and stop dates; however, they were not awarded the correct number of years. We also learned through discussions that ETF staff would award the number of SHICC years reported by the UW in the Employer Notes section of the form without checking the information for correctness. In addition, knowing and understanding exactly how the UW faculty rule is applied is an area that is not fully understood by ETF staff.	Members received more or less sick leave conversion dollars than they were eligible for.
Recommendation We recommend that ETF staff adjust AcSL's programming to expand the date range, so less manual processing must occur, or consider having the option to check a box to receive an additional year. In addition, we recommend that ETF staff review to ensure that faculty are awarded the correct number of SHICC years based on the defined rules. Finally, work with the UW and/or DOA's Division of Personnel Management to document the UW faculty rule and include various scenarios of how it is applied in the ETF staff sick leave review manual. *Significance: Medium*	
Management Response ETF must rely on accurate and complete information from employers, however, we agree that additional controls would enhance the quality of our data. ETF has a multi-step approach to enhance its sick leave benefit plan processes:	

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[6] Some examples include: 20 years of WRS creditable service and not eligible for an immediate annuity; constitutional officer, legislature, or agency head appointed by the governor and confirmed by the senate when terminating and not eligible for an immediate annuity; or spouse is a state employee with family coverage.

1. Work with state employers to further educate them on the sick leave program requirements, including some targeted training with UW staff.
2. Improve accuracy on the adjusted continuous service date determination by more fully documenting the UW faculty rule with example scenarios for both employer staff and ETF staff.
3. Provide additional training to ETF staff so that in the short term we might better identify data issues.
4. As part of ETF's data management modernization effort—more long term—implement additional quality data controls in our systems to validate the quality of employer sick leave data to avoid errors in the data and in the calculation used to determine credits.

The AcSL programming changes are significant and will be most efficiently accomplished when combined with some other already-planned changes to AcSL.

Responsible Staff: Alene Kleczek and Adam Simcock

Completion Dates: Due to the need for a significant amount of work required in AcSL, the IT programming will be done in concert with needed enhancements to AcSL in order to integrate with the new Insurance Administration System. Items 1-3 above will be completed by 2/15/2023. Item 4 is a continuous process improvement that will be part of the data management modernization effort.

Finding	Risk/Effect
2. *Employment Category Review* During our review, we found two members who were included in the protective category for SHICC when they should have been in the general category. We also identified that the sick leave form does not distinguish between General and Protective all that well.	Members received more sick leave conversion dollars than they were eligible for, which could result in higher costs to employers, taxpayers, etc.
Recommendation We recommend that ETF staff review the category of employment on the sick leave form against the employee's WRS category to ensure they are aligned. In addition, the words General/Executive and Protective be underlined, italicized, upper cased and/or some other distinction so they standout when the employer is entering the years of service in the SHICC section on the sick leave form. *Significance: Low-Medium*	
Management Response Agreed. As an interim manual solution until the data management modernization effort is completed, we will change the work procedure to include a review of the employee's WRS category and update the form to emphasize the employment category. Later,	

system updates can facilitate a data comparison across benefit programs, as an additional check on employer data quality.

Responsible Staff: Elizabeth Bush

Completion Dates: The interim solution can be completed within the next three months. The long-term solution is a continuous process improvement that will be part of the data management modernization effort.

Finding	Risk/Effect
3. *Year of Adjusted Continuous Service (ACS) Determination* The AcSL application has been programmed to provide a full year of service the day before the employee's employment begin date the following year. For example, if the employee's ACS date is 4/2/2021 they would have to work through 4/1/2022 to receive one year of service. However, during our conversations with ETF staff, it was also stated and documented that the employee must cross their continuous service date to earn a full year of ACS for SHICC purposes (i.e. 4/2/2021 – 4/2/2022).	Members might be receiving more years of service than they are eligible for, which could result in higher costs to employers, taxpayers, etc.

Recommendation

We recommend that ETF staff work with DOA's Division of Personnel Management to determine exactly how a year of service is determined for SHICC, document the results in a memo or administrative code, and make any adjustments necessary to AcSL's programming.

Significance: Low-Medium

Management Response

Management will work with DRS policy analysts to determine this. We will need to validate the definition with DOA to determine programming changes that may be required. We will also incorporate the definition and criteria into our employer administration manuals and into staff training materials.

Responsible Staff: Alene Kleczek and DRS Policy Analysts

Completion Dates: All changes by April 2023, pending other priorities and availability of DOA resources.

Finding	Risk/Effect
4. *Issue Log and Training Materials* We found no formal documentation of issues identified during ETF staffs' review, and instead, it is on a case-by-case basis and informal. In addition, the current employer sick leave manual is included in the State Agency Health Insurance Standards, Guidelines and Administration Employer Manual that is rather lengthy and contains 15 different chapters on health insurance related items, and sick leave is one of the chapters. ETF staff are working on updating an employer-specific sick leave training manual and hope to have it completed by the end of the year.	Maintaining a log would be beneficial and helpful if employee turnover occurs. Updating the sick leave manual and providing training to the employers on the various scenarios as they are the first line of defense since the more accurate their information is, the less review time ETF staff should have.

Recommendation
We recommend that ETF staff maintain a log of issues its staff identify to determine if the issue continues to occur, is specific to an employer or more widespread, or if additional training is required. Also, ETF staff should continue updating its State Agency Health Insurance Standards, Guidelines and Administration Employer Manual for the employers to provide specific scenarios and then have training sessions available for the employer's staff to attend.   *Significance: Medium*

Management Response
This is a continuous process improvement recommendation that we have already begun to do for all aspects of insurance. We are working on an issues log that the ETF employer trainer will maintain. This will drive priority of trainings, especially assigning specific training to employers once the Cornerstone system has been implemented. The Cornerstone system will also include a certification process to ensure that new human resources administrators are trained and qualified to apply applicable reporting rules.   **Responsible Staff:** Jake Spielbauer   **Completion Dates:** Continuous

Finding	Risk/Effect
5. *AcSL Programming* During our review, we found one employee that did not use 500 hours of sick leave for the same illness or injury within three years prior to retirement, even though program rules require this in order to receive this restoration. In addition, we found three members with unused sick leave hours that	At least four members received a benefit they were not eligible for, which could result in higher costs to employers, taxpayers, etc.

exceeded the maximum reasonably allowed hours based on their years of service.	

Recommendation

We recommend the following be programmed in AcSL to further enhance that the information entered by employers is accurate:

- An error message warning whenever the employee's unused sick leave hours is greater than the employee's years of service multiplied by 130 hours;
- An error message warning when the 500-hour SHICC restoration is selected but the employee's years of service multiplied by 130 hours less the employee's unused sick leave hours is less than 500 hours; and
- Whenever the 500-hour SHICC restoration is selected, require a note be included in the Employer Notes section with the employer confirming that the employee used at least 500 hours of sick leave for a single illness/injury within three years of retirement, disability, death, or layoff.

Significance: Medium

Management Response

Agree. While ETF must rely on the employer to provide employee data, ETF could improve the quality of that data by implementing system checks. We will make a project request to add the error message warnings and a note section for the employer to confirm the facts that support employee eligibility for the 500-hour SHICC restoration.

Responsible Staff: Adam Simcock/Elizabeth Bush

Completion Dates: This will depend on available resources and approval of a project request.

Finding	**Risk/Effect**
6. *AcSL Application Access Review* Based on our review, we found that several employees had more access than their job duties required, including allowing them to approve, adjust, or delete sick leave certification forms.	Staff having more access than their job duties increase the risk of making adjustments to members' sick leave accounts.

Recommendation

We recommend that in addition to the annual access review performed by the supervisor, the business owner of AcSL also reviews the access annually, given their knowledge and understanding of the application and who should have access. Furthermore, AcSL's access is adjusted based on the employees' job duties.

Significance: Medium

Management Response

Agree. Each year supervisors must review staff system access and attest to its accuracy. In conjunction with the annual review of all staff system access, the AcSL business owner (currently Elizabeth Bush) will perform a first-pass review of system access for AcSL, noting any concerns. Then she will work with supervisors on whether or not the AcSL access is appropriate. She has already completed such a review for 2022.

Responsible Staff: Elizabeth Bush

Completion Dates: Done for 2022. This will be done annually. Eventually ETF will establish more robust role-based access controls through the data management and information security programs. Those are expected to be implemented in the next two years.

Process Improvement Considerations:

We provided the following process improvement suggestions for management's consideration to improve the efficiency and effectiveness of the sick leave reporting process:

- Consider programming MEBS or its replacement so that whenever a sick leave contract is created, an automated reminder email is sent to the employer to complete a sick leave certification form along with a subsequent reminder after 30 days.

- Work with the Division of Trust Finance to obtain access to the annual insurance files that contain members' sick leave balances and review this information when questions/concerns with a member's balance occur. Alternatively, staff could load those balances in a table that allows AcSL to link to and verifies the balance within a certain percentage from what is reported.

Audit Methodology

The OIA conducted this audit by performing the following testing procedures:

- Sick Leave Certification Forms – We stratified the sick leave certification forms population of 3,587 into various categories (highest wage rate, 500-hour SHICC restoration, high and low unused sick leave balance, employment category, etc.) to ensure we had a good mix of samples for our review. We then selected 60 sick leave certification forms to review to ensure the information on the forms were accurate and following program rules.

- 500-hour SHICC restoration – We reviewed a sample of members who received this from January 1, 2014 – December 31, 2020[7] to ensure that DRS staff's review identified only members eligible for this. We also ensured the AcSL's programming change was deployed accurately.

- Access to AcSL Application – We reviewed all ETF employees that had access to the application to ensure their access was required for their job duties.

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[7] Members who received the 500-hour SHICC restoration after this date were included in our selection under the Sick Leave Certification Forms. We identified no concerns with this portion of our testing.