



INTERNAL AUDIT REPORT

FMLA Management Follow-Up

R-17-2

March 21, 2017

Executive Summary

Introduction

A follow-up of the Family Medical Leave Act (FMLA) Management Internal Audit, issued on March 28, 2016, has recently been completed. This report is based on the results of the follow-up audit.

Objectives and Scope

The primary objective of the audit was to determine the status of management actions to address the findings reported in the 2016 audit report, reference R-16-1. The period of the follow-up audit testing was from September 1, 2016 to December 31, 2016.

The following areas were reviewed:

- Roles and responsibilities
- Standardized processes
- Responsible party identification
- Training program
- FMLA compliance monitoring
- Segregation of duties

As the focus of the audit was on assessing progress with management actions to address previously reported findings, controls that were previously evaluated as adequate and effective in 2016, were not tested and were assumed to be operating as they had at the time of the 2016 audit.

Audit Conclusion

Audit Report Rating*

The overall rating has been determined based on the results of the follow-up audit.

The audit revealed that the Benefits Administration Department has implemented policies and procedures, standardized processes and defined roles and responsibilities to manage FMLA use in UTA. Additionally, the department undertook an extensive training program to make responsible parties aware of their roles and responsibilities and equip them in the use of the newly implemented policies and procedures. Exception reports have also been developed and rolled out to assist the Benefits Administration Department, the responsible parties and payroll in the monitoring of FMLA use. It is recommended that management expand on the review of manual controls executed to have better quality control, which should address the limited anomalies identified. As a result of the overall improvement in governance and control, a better audit trail is in place to support decisions and actions taken but further work is necessary to have a strong audit trail in place.

While this report details the results of the follow-up audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

*Rating is defined in Appendix 2

Internal Audit would like to thank the management and staff for their co-operation and assistance during the audit.

Table of Contents

APPENDIX 1: Index of Findings..... 3
APPENDIX 2: Report Rating Matrices 11
APPENDIX 3: Distribution List 12

APPENDIX 1

Index of Findings	Page
1. Monitoring of FML use and time submission	4
2. FML time corrections in a timely manner	6
3. Timely submissions of FML requests	8
4. Timely processing of FML requests	9

APPENDIX 1

1. Monitoring of FML use and time submission

Finding R-16-1-1		HIGH
<p>Approvals of FML requests specify the terms of employees' leave and are communicated to the employee and supervisory personnel as directed by the head of each division. Terms include the total amount of FML time available to an employee, the frequency and duration of intermittent leave, and the approved time frame of the employee's leave. While employees are ultimately responsible for their FML compliance, supervisory personnel preparing and approving employees' time submissions are accountable for timecard accuracy and the financial impact of any unauthorized or excessive FML use within their areas of oversight.</p> <p>Failure to monitor employees' FML use and time submissions may result in the employee receiving unauthorized leave and benefits that unnecessarily increases UTA's benefit costs, which may not be recoverable from employees. Excessive and unauthorized FML use may also result in operational inefficiencies and increased labor costs.</p> <p>The following are exceptions noted from the audit procedures performed:</p> <ul style="list-style-type: none"> Monitoring procedures at the divisional level were not standardized and varied from individual to individual. FML time submissions for 18 employees had exceeded the annual FML limit of 480 hours. Overages ranged from as much as 210 hours to as little as 4 hours. The intermittent leave taken by 4 of the 16 employees tested exceeded the frequency and/or duration of the approved terms of their leave. 		
Recommendation		
<ul style="list-style-type: none"> The Senior Human Resources Officer should create a standardized process and procedures for supervisors and responsible parties to follow in order to properly monitor FML use in their divisions. The head of each division should identify and communicate the personnel with responsibility to monitor FML use within their divisions to the Benefits Administrator. The Benefits Administrator and Continuous Improvement Manager should train all personnel responsible for monitoring FML use within their divisions on the new standardized process and should periodically report to Corporate Staff regarding the UTA's compliance with the process. The Application Development and Support Team Leads should develop exception reports for time keeping systems that supervisors and responsible parties at the division level may run to identify employees and time submissions that exceed the FML limit for the rolling 12 month period prior to submitting time to Payroll. The ERP Technology Systems Administrator should develop an exception report for JD Edwards that Payroll personnel may run to identify employees and time submissions that exceed the FML limit for the rolling 12 month period prior to processing payroll. 		
Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	September 1, 2016
<ul style="list-style-type: none"> HR SOP 710 will be revised to show the standardized process and procedures for Human Resources FML monitoring. A Corporate SOP be drafted by the Senior Human Resources Officer and presented to the Policy Subcommittee in June 2016 and subsequently to Corporate Staff for approval by September 2016. 		

APPENDIX 1

- The Corporate SOP will require each Business Unit or Corporate Office to designate a responsible party. The Senior Human Resource Officer will follow up with each Business Unit or Corporate Office who fails to respond to identify and communicate the responsible party to the Benefits Administrator.
- The Benefits Administrator and Continuous Improvement Manager will conduct group trainings at FLHQ as well as trainings at each division with the Manager, identified responsible party and any other key personnel the Manager requests to be trained on the new Corporate SOP and the revised HR SOP. Training will be provided to each division with any changes to the system as needed.
- The Senior Human Resources Officer will report to the GM/President/CEO at Corporate Staff quarterly on the divisions' compliance.
- The IT department will work with the ERP Technology Systems Administrator and Payroll department to design and develop exception reports for the JD Edwards, OWATS, TC1 and TOPS applications to allow supervisors and responsible parties to identify employees and time submissions that exceed the FML limit (480 hours) for the rolling 12 month period prior to submitting to Payroll.
- The ERP Technology Systems Administrator will work with the IT and Payroll departments to design and develop an exception report that allows Payroll to identify employees and time submissions that exceed the FML limit (480 hours) for the rolling 12 month period prior to processing payroll.

Final Status	LOW
<ul style="list-style-type: none"> • The Senior Human Resources Officer had designed and implemented, but not documented, a standardized process and procedures for Human Resources FML monitoring. It has been noted that the revision to HR SOP 710 was only implemented after the agreed upon action date. • A "Responsible Parties List" was created by the HR Benefits Manager with input from General Managers and Corporate Officers as well as their designees. It is recommended that the HR SOP 710 includes the requirement that responsible parties must be identified by Business Units and Corporate Office. Audit testing identified three employees that were not included on the Responsible parties list, which increases the risk of the list being incomplete. Therefore, it is important that the completeness of the list is assessed at least annually. • An extensive training program was undertaken to train responsible parties and other key personnel on the standardized process. • Divisional compliance with FML had not yet been reported to the President/CEO. The Senior Human Resources Officer should identify the most appropriate governance structure to report the divisional compliance to and implement a process to update this governance structure on a periodic basis on the compliance status. • Exception reports were developed by IT to assist responsible parties to monitor employees with FML time submissions exceeding the limit for the rolling 12 months period. Additionally, system notifications are sent on a biweekly basis to identified responsible parties that include links to departmental reports in order to monitor for submissions exceeding the FML limits. • An exception report was developed to enable the HR Benefits Administrator to monitor FML compliance with FML limits as well as identify other potential FML time submission exceptions. The audit found from a sample of 25 employees tested, 4 employees had unapproved FML hours that were not corrected timely. Management should consider implementing a review of the 	

APPENDIX 1

execution of the control to monitor possible exceptions not identified by the Benefits Administrator.		
Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	October 31, 2017
<ul style="list-style-type: none"> HR SOP 710 with standardized processes and procedures was implemented January 25, 2017. HR SOP 710 will be revised to include the requirement that each Business Unit or Corporate Office will designate a responsible party. Additionally, the HR Benefits Manager will annually confirm with the management of Business Units and Corporate Offices the Responsible Parties from the list for their areas. The Senior Human Resources Officer will identify the most appropriate governance structure to report the divisional compliance to and implement a process to update this governance structure on a periodic basis on the compliance status. The HR Benefits Administrator (or designee) will implement a monitoring process to assess whether the exception report control is performed as designed. 		

2. FML time corrections in a timely manner

Finding R-16-1-2	HIGH
<p>Employee's and their supervisors are responsible for ensuring that timesheets accurately record all working time and absences, including any overtime, vacation and leave. Supervisors who identify or are notified of an error subsequent to payroll processing are obliged to submit a payroll memo in a timely manner to correct the error.</p> <p>Failure to accurately report time, including correcting known errors, violates Corporate Policy 6.1.1 (Employee Expectations) as well as the FMLA and Fair Labor Standards Act. Violations of these regulations may result in fines, penalties or litigation against UTA and persons believed to be at fault.</p> <p>The following are exceptions noted from the audit procedures performed:</p> <ul style="list-style-type: none"> A payroll memo had not been submitted for 2 of 13 employees requiring adjustments at the time of the audit. Payroll memos for 8 of the 11 submissions were submitted by the Benefits Administrator rather than the employee's supervisor. Payroll memos were not submitted in a timely manner for 7 of the 13 cases reviewed. The monthly FML Status Report was not sent out to the divisions for one of the four months during the period when the Benefits Administrator was out of the office. 	
Recommendation	<ul style="list-style-type: none"> The Senior Human Resources Officer should create a standardized process and procedures for supervisors and responsible parties to follow in order to properly monitor FML use in their divisions. The head of each division should identify and communicate the personnel with responsibility to monitor FML use within their divisions to the Benefits Administrator.

APPENDIX 1

- The Benefits Administrator and Continuous Improvement Manager should train all personnel responsible for monitoring FML use within their divisions on the new standardized process and should periodically report to Corporate Staff regarding the UTA’s compliance with the process.
- The Senior Human Resources Officer should ensure that the Benefits Administrator or her backup distributes the FML Status Report to division personnel responsible for monitoring FML use.

Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	September 1, 2016

- The Corporate SOP will require each Business Unit or Corporate Office to designate a responsible party. The Senior Human Resource Officer will follow up with each Business Unit or Corporate Office who fails to respond to identify and communicate the responsible party to the Benefits Administrator.
- The Benefits Administrator and Continuous Improvement Manager will conduct group trainings at FLHQ as well as trainings at each division with the Manager, identified responsible party and any other key personnel the Manager requests to be trained on the new Corporate SOP and the revised HR SOP. Training will be provided to each division with any changes to the system as needed.
- Members of the benefits department will be cross-trained on FML Management. The Senior Human Resources Officer will designate personnel as the primary backup to the Benefits Administrator.

Final Status	LOW
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- The Senior Human Resources Officer had designed and implemented, but not documented, a standardized process and procedures for Human Resources FML monitoring. It has been noted that the revision to HR SOP 710 was only implemented after the agreed upon action date.
- A “Responsible Parties List” was created by the HR Benefits Manager with input from General Managers and Corporate Officers as well as their designees. It is recommended that the HR SOP 710 includes the requirement that responsible parties must be identified by Business Units and Corporate Office. Audit testing identified three employees that were not included on the Responsible parties list, which increases the risk of the list being incomplete. Therefore, it is important that the completeness of the list is assessed at least annually.
- An extensive training program was undertaken to train responsible parties and other key personnel on the standardized process.
- Divisional compliance with FML had not yet been reported to the President/CEO. The Senior Human Resources Officer should identify the most appropriate governance structure to report the divisional compliance to and implement a process to update this governance structure on a periodic basis on the compliance status.
- A primary as well as a secondary backup was identified and both were cross trained on FML management. The primary backup has performed the FML responsibilities on a regular basis when the HR Benefits Administrator has been unable to do so.

Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	October 31, 2017

APPENDIX 1

- HR SOP 710 with standardized processes and procedures was implemented January 25, 2017.
- HR SOP 710 will be revised to include the requirement that each Business Unit or Corporate Office will designate a responsible party. Additionally, the HR Benefits Manager will annually confirm with the management of Business Units and Corporate Offices the Responsible Parties from the list for their areas.
- The Senior Human Resources Officer will identify the most appropriate governance structure to report the divisional compliance to and implement a process to update this governance structure on a periodic basis on the compliance status.

3. Timely submissions of FML requests

Finding R-16-1-3		HIGH
<p>Employees are responsible for requesting FML in advance for known upcoming needs. Supervisors are responsible to notify the employee and the Benefits Administrator after three consecutive days of an employee's absence due to a personal or family member's medical need.</p> <p>Failure to request FML in a timely manner hinders Human Resources (HR) Benefits' ability to ensure that employees' needs are addressed quickly by the Benefits Administrator, time keeping for the employee is accurate and current information is available for operations or staff planning.</p> <p>Audit procedures found that 8 of 25 FML requests tested were not communicated to HR Benefits within four days of the commencement of the employees' absence.</p>		
Recommendation		
<p>The Senior Human Resources Officer and Benefits Administrator should update corporate policy and standard operating procedures to more clearly delineate employees and supervisors' responsibilities to identify and request FML within a timely manner. The updated policy should be communicated and distributed to all UTA employees.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	October 1, 2016
<p>The Senior Human Resources Officer and Benefits Administrator will update policy and procedures as the Lincoln Group solution is implemented. The Senior Human Resources Officer will take it to the policy subcommittee and then to Corporate Staff for approval. It will then be distributed by the legal department to each divisions via email. A Connects Article will be written notifying all employees that the updated policy is posted on UTA.net.</p>		

Final Status	IMPLEMENTED
<p>Corporate Policy 6.1.12 "Leaves of Absence" outlining employee responsibilities as well as FML policies and procedures was revised and issued on September 8, 2016. Additional policies and procedures, as well as supervisor and HR roles and responsibilities, were included in HR SOP 710 (issued January 25, 2017), which was after the initial target completion date.</p>	

APPENDIX 1

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

4. Timely processing of FML requests

Finding R-16-1-4	MEDIUM	
<p>HR Benefits is responsible for ensuring that FMLA-qualifying requests are approved in accordance with the FMLA, which dictates that notice be given of approval or rejection within five (5) business days of having sufficient information to make a determination. UTA policy and departmental procedures state that notice should be given to the employee within five (5) business days of the receipt of the employee leave request form and medical certification. This requires the date that documents are received to be recorded. The FMLA also requires that related documentation be retained for no less than three (3) years so that they may be available for inspection by the Department of Labor.</p> <p>Failure to process FML requests and to give notice to employees in a timely manner may result in fines and inaccurate time keeping. Failure to retain FMLA related documentation may also result in fines.</p> <p>The following are exceptions noted from the audit procedures performed:</p> <ul style="list-style-type: none"> • Notice was not given to the requesting employee within five business days of the receipt of the employee leave request form and medical certification for 4 of the 25 selections. • The employee leave request form and/or medical certification was not date stamped upon receipt for 9 of the 25 selections. • The employee leave request form (3) and medical certification (1) was not retained for 4 of the 25 selections. 		
Recommendation		
<ul style="list-style-type: none"> • The duty of date stamping the receipt of FML documentation should be segregated from the person responsible for assessing and approving requests in order to reduce the opportunity for delayed recognition of receipt. • The Senior Human Resources Officer should have an employee with limited FMLA responsibilities, but adequate knowledge, perform periodic self-assessments of the Authority's compliance in regards to the timeliness of FML approvals and document retention. 		
Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	September 1, 2016
<ul style="list-style-type: none"> • SOP 715– Date Stamping FMLA was developed and approved on March 1, 2016. The HR Office Specialist and HR Administrative Services Clerk will be date stamping all FML related documents that come into Human Resources. For electronic copies, the HR Administrative Services Clerk will take the documents from a shared file and index them in SIRE. The last modified date will be confirmed by comparing the notation of date received in the employees leave database record. 		

APPENDIX 1

- A Human Resources Generalist will be assigned to assess the timeliness of the FML processes including approvals and the document retention on a monthly basis. After the first quarter, the assessment process will be done quarterly and semi-annually after the first two (2) quarters.

Final Status		MEDIUM
<ul style="list-style-type: none"> • Segregation of duties have been implemented as the duty of receiving documents and date stamping them has been separated from the person assessing and approving requests. This has been incorporated into SOP 715, which was implemented on February 29, 2016. The audit found that 14 of 25 audit samples tested did have the date stamp but not the initials of the person that received the documents, resulting in the audit trail not being as strong as when the receiver of the documents could be evidenced. • The Human Resources Generalist stated that she did perform independent assessments of the documentation but did not document her assessment of the timeliness of FML processes. The Human Resources Generalist should retain evidence of her assessments when she executes the reviews. 		
Management Agreement	Owner	Target Completion Date
Yes	Senior Human Resources Officer	July 31, 2017
<ul style="list-style-type: none"> • The Human Resources Generalist Review will include review for initials of the person receiving the documents. • The Human Resource Generalist will document the results of her reviews and retain evidence of her assessments. 		

APPENDIX 2

* REPORT RATING MATRICES

OVERALL REPORT RATING

The overall report ratings are defined as follows, applicable to the audit scope as defined

Descriptor	Guide
Fully effective	Controls are as good as realistically possible, both well-designed and operating as well as they can be.
Substantially effective	Controls are generally well designed and operating well but some improvement is possible in their design or operation.
Partially effective	Controls are well designed but are not operating that well. OR While the operation is diligent, it is clear that better controls could be devised.
Largely ineffective	There are significant gaps in the design or in the effective operation of controls – more could be done.
Totally ineffective	Virtually no credible controls relative to what could be done.

DETAILED FINDING PRIORITY RATING

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.
Implemented	Adequate and effective management action taken to address the finding noted in the preliminary report.

APPENDIX 3

DISTRIBUTION LIST			
Name	For Action ¹	For Information	Reviewed prior to release
President/CEO		*	*
General Counsel		*	
Chief People Officer	*		*
Vice President of Finance		*	*
Chief Safety, Security and Technology Officer		*	
Senior HR Officer	*		*
HR Manager		*	
HR Benefits Manager	*		*
HR Benefits Administrator	*		*
HR Generalist	*		
ERP Technology Systems Administrator		*	

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.