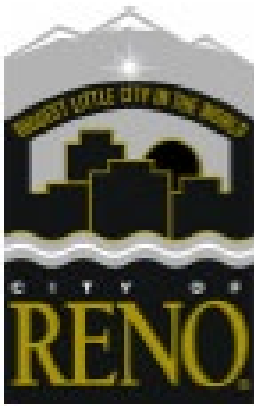


City of Reno, NV

Employee Benefits Review

Draft



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Executive Summary

The City of Reno (City) engaged BerryDunn to perform an independent analysis of its benefits management processes to evaluate compliance with applicable laws, regulations, and internal policies, as well as to assess the efficiency and effectiveness of its benefits administration. Our review included an examination of key areas identified in collaboration with the City, including RPSAE-S Article 21(r), quasi-governmental agency employee benefits, employee benefits elections, FMLA administration, retiree premium deductions, retiree payoffs, and deferred compensation processes.

The scope of our analysis focused on the period from January 1, 2022, through December 31, 2022. As part of our methodology, we conducted interviews with key personnel, reviewed relevant documentation, and performed sample testing to evaluate both the accuracy and timeliness of benefits administration and the adequacy of internal controls. Our review identified several key observations that highlight opportunities for improvement in the employee benefits processes, summarized below at a high level:

- **Lack of Documented Processes** - The City does not have formal, documented procedures for administering employee benefits.
- **Deferred Compensation Changes** - Changes to deferred compensation are not consistently updated in employee files.
- **Quasi-Governmental Agency Elections** - Employees from quasi-governmental agencies are not routinely required to submit forms to document their benefit selections.
- **Communication Gaps in Retiree Payoffs** - While payroll adjustments for ending leave balances are made before retiree payments are issued, these changes are not communicated back to the benefits team.

The following sections of this report provide a detailed overview of our review. This includes descriptions of the employee benefits processes we examined, an outline of the testing methodologies employed, the results of our testing, and our detailed observations and recommendations for improvement.

1.0 Background

BerryDunn performed an independent performance audit of City payroll processes from October 2022 to June 2023 to help ensure compliance with laws and regulations as well as to report on the adequacy of Central Payroll's processes. During the audit, concerns were raised that some vulnerabilities might exist around the administration of employee benefits. The City acknowledged the concerns and engaged BerryDunn to perform a detailed analysis of compliance with the current benefits processes as well as an assessment of the efficiencies and effectiveness of the benefits management process.

The City consists of the following departments:

- City Attorney
- City Clerk
- City Manager's Office
- Civil Service Commission
- Code Enforcement
- Communications
- Development Services
- Information Technology
- Finance
- Fire
- HR
- Maintenance and Operations
- Municipal Court
- Parks and Recreation
- Police and Public Safety Dispatch
- Public Works
- Utility Services

The HR Department oversees the City's employee benefits, with the benefits manager managing and coordinating all benefits for active and retired employees. As the sole employee dedicated to this role, the benefits manager works to ensure the effective administration of various benefit programs, including health, vision, and dental plans for employees. Additionally, the benefits manager administers deferred compensation plans, cash-outs, retirement payoffs, and other related benefits. The manager also collaborates with Central Payroll to help ensure accurate benefits processing.

In March 2022, Central Payroll was integrated into the HR Department after having previously operated under the Finance Department. In October 2024, the City hired a benefits specialist to

assist with the City's benefits processes. Summaries of key employee benefits processes are provided in the following sections of this report.

1.1 Employee Benefits Systems and Tools in Use

- **New World eSuite™ Software:** A Tyler Technologies enterprise resource planning (ERP) product used by the City for processing payroll from time entry through employee payment.
- **Google Forms:** Used for initial employee elections
- **Microsoft Excel:** Used to track and manage various employee benefits, including those for quasi-governmental agencies, deferred compensation plans, and retiree benefit elections.

1.2 Summary of Employee Benefits Processes

1.2.1 RPSAE-S Article 21(r)

As a part of this review, the City directed us to review Article 21(r) from the Reno Police Supervisory/Administrative Employees Supervisory Unit – Sergeant (RPSAE-S) collective bargaining agreement to understand the requirements for benefits calculations and distribution.

RPSAE-S Article 21(r) states:

“(r) Additional Insurance Benefits: Effective the first full pay period in July 2022, the City shall remit to the Reno Police Supervisory/Administrative Employees Association (RPSAE) the equivalent of two and one half percent (2.5%) of the annual Sergeant’s wages at Step 1 per member in biweekly installments.

The Association shall utilize these funds to provide health care benefits for eligible members as determined by the RPSAE and in accordance with law.

(1) The administration of the funds referenced in paragraph (q) shall be the sole responsibility of the Association and shall not obligate the City in any manner nor shall there be any liability on the part of the City other than to contribute to the Association the amount specified above.

(2) The Association may pay all or a portion of insurance premiums for eligible employees as determined by RPSAE for any available City plans subject to the eligibility requirements and terms and conditions of the plan. This shall not be construed that the City guarantees the availability of any insurance plan.”¹

Through interviews with representatives from HR, Central Payroll, and the RPSAE collective bargaining unit, BerryDunn identified that the City does not have any involvement in the administration or tracking of this benefit.

¹ City of Reno and Reno Police Supervisory and Administrative Employees – Supervisory Group. July 7, 2022, *Labor Agreement July 1, 2022 Through June 30, 2024*. City of Reno, Nevada.

As outlined in the article mentioned above, the City contributes 2.5% of Step 1 Sergeant wages biweekly for every RPSAE member. The City deposits the contractual amount into an RPSAE-owned bank account. Funds are entered into a trust managed exclusively by and for the benefit of RPSAE members and no communication is required unless there is an issue with the deposit.

1.2.2 Quasi-Governmental Agency Employee Benefits

The City of Reno is responsible for managing the health, dental, and vision benefits for employees within three quasi-governmental agencies.

- Truckee Meadows Regional Planning Agency (TMRPA)
 - Supports approaches for economic development and community planning for the cities of Reno and Sparks, as well as Washoe County. In addition to facilitating land use, infrastructure provision, and resource management conversations among public and private decision-makers, TMRPA serves as a collaborative information and data warehouse, coordinating regional data collection and delivering advanced geospatial analytics for regional solutions.
- Truckee Meadows Water Authority (TMWA)
 - A not-for-profit, community-owned water utility whose workforce helps ensure the treatment, delivery, and availability of high-quality drinking water for more than 440,000 residents.
- Reno Housing Authority (RHA)
 - Owns and operates numerous housing developments throughout the City of Sparks, Reno, and Washoe County. They also operate the Housing Choice Voucher Program, known as Section 8.

TMWA and RHA Benefits Process:

The City provides TMWA and RHA with a bill for their employee health, vision, and dental benefits on a monthly basis. During the review period, Central Payroll technicians kept a running list, referred to as a census, of the number of employees who elected each benefit plan and the corresponding rates. They used this list to update their benefits tracking spreadsheet and to create the monthly bill for the agency. The quasi-governmental agencies sent Central Payroll an email with tables that contained any necessary changes to health, dental, and vision elections.

Central Payroll sent this bill to the agencies monthly. If something was incorrect, the agency would adjust the next month's bill accordingly.

The RHA report includes the names of each employee with a benefit plan with the City and shows their coverage type and the cost of their medical, dental, vision, and administrative fees owed for the month. It also includes notes about any changes to plans for that period.

The TMWA report does not include individual employee names. For each of the four available benefit plans (Hometown Health Medical, Reno Plan Medical, Dental, and VSP) the Excel file lists:

- The rates and number of employees within each category of the plan (single, spouse, child, family, domestic and family)
- Back charges and credits for each benefit plan

- The total owed for the month including the costs of each plan and category of plan.

TMPRA Benefits Process:

During our interviews with key staff involved in managing quasi-governmental agency benefits, we were told that TMRPA does not typically have any changes to their employee file, so the monthly bill is consistent. The City confirmed there were no changes to employee elections in 2022.

General:

During BerryDunn's 2022 review, Central Payroll managed the benefit process for quasi-governmental employees; however, due to limitations in the election and tracking process, Central Payroll was unable to verify the accuracy of benefit numbers. Employees did not submit election forms or sign formal documentation, and there was no method for identifying missing participants until receiving a notification in a subsequent month. Entities simply sent a check, which was then received by Central Payroll and deposited by one of their technicians with the City Clerk's office. At the time, Central Payroll handled these payments due to understaffing in HR. Since the audit period, the responsibility for managing benefits for quasi-governmental employees has shifted back to the benefits manager within the City's HR Department, and Central Payroll is no longer involved. The benefits manager indicated that election forms are now completed for all quasi-governmental agency employees and are available upon request by the City. However, the City does not routinely request or document this information.

1.2.3 Employee Benefits Elections

During BerryDunn's review period, the HR Department handled all functions related to active employees' elections and updates. At the beginning of BerryDunn's review period, the payroll manager was responsible for updates to retirees' elections, but these processes were transferred to HR when the manager left halfway through the period. Newly hired employees would fill out an enrollment election form dependent on their policy of choice. The City's offerings included three plans that are administered by two third-party administrators: Prominence and Hometown Health Plan. During our review period in 2022, initial enrollment was recorded and stored in the City's Document storage system OnBase. Updates were made through a Google form or a printed Election Change form. Employees could update their elections following a qualifying life event (QLE), which requires documentation such as a marriage or birth certificate. These documents were to be stored in New World alongside the change form and initial enrollment policies. Once the HR Department received the necessary instruction and documentation, they would send the information to Central Payroll for final approval and to enact the change.

The stated process has changed since our review period. The benefits manager, with the assistance of the HR technicians is now responsible for the employee elections process, enrolling employees using a similar form. The HR Department hired a benefits specialist to support this work as of October 21, 2024. On November 1, 2024, the system will further change: employees will individually input changes into the Employee Navigator system. These changes will be reviewed by the benefits specialist and later verified by Central Payroll.

1.2.4 FMLA (Family and Medical Leave Act)

The FMLA enables employees to take up to 12 weeks of unpaid leave in a year. Typically, FMLA is taken for certain medical reasons such as the birth and care of a newborn child, adoption, or foster care placement of a child, caring for an immediate family member, or an employee's own serious health condition. The Reno FMLA Policy states that employees can request FMLA verbally, in writing, or by action. Employees are required to adhere to a specific set of procedures within the City of Reno FMLA policies and procedures and request a FMLA leave of absence in advance of their time off. Additionally, employees are required to submit completed certification paperwork such as proof of a serious health condition or a return-to-work notice from a medical professional within the specific time directly to the HR Department. Employees are also required to inform the Reno HR Department of any changes to the employees' need for a FMLA leave of absence and code FMLA time in accordance with City policy.

Employees may also be eligible to take intermittent leave depending on their health circumstances. Intermittent leave allows employees to take time off in blocks or reduce the employees work schedule from what is typically required. The City's FMLA Policy states that a medical certification establishing the need and nature of the intermittent FMLA leave of absence and requires periodic recertification as the medical recertifications may not be provided for more than 15 days. The City requires employees to make a reasonable effort to schedule treatment that does not disrupt the City's operation when intermittent leave is required for planned medical treatment.

1.2.5 Retiree Premium Deductions

When employees retire from the City, they may be eligible to receive health insurance coverage and may have subsidy premiums as outlined in the collective bargaining agreement applicable to their position. Prior to the employee's retirement date, typically within 2 weeks, staff from the HR department meet with the employee to determine what, if any, benefits they would like to maintain after retirement. Occasionally an employee may be on paid time off prior to their retirement date, in which case the meeting would be held prior to the employee's last day working. During 2022 there was not a formal process but the Central Payroll manager was responsible to meet with retiring employees to obtain their health insurance choices and how they would like to have final payouts distributed. The Central Payroll manager would complete a retiree estimate worksheet, review it with the retiree, and then enter the premium selections into a Retiree Action Form with the resulting premium information input into the New World system.

Changes to the retiree's benefits are kept in their electronic files in the event of the retiree initiating a change in coverage, however, changes that arise only from the change to the yearly premium amounts are not.

During the last part of 2022, the benefits manager worked to standardize the process, developing spreadsheets and the Retiree Action Form for when an employee is retiring. These spreadsheets and forms include the language from the union contracts with the specifics for

each bargaining unit and what benefits they are afforded in the contracts. The spreadsheets are used to assist in the completion of the Retiree Action Form that the benefits manager would upload into New World. Central Payroll would review the calculations and adjust as needed. Any adjustments made by Central Payroll were not communicated back to the benefits manager.

1.2.6 Retiree Payoffs

When employees retire from the City, certain Collective Bargaining Agreements (CBAs) entitle them to a payoff of their respectively accumulated hours. These CBAs establish the guiding documentation for this process. Employees may be eligible to cash-out their accumulated hours at varied rates and with varied limits before retirement, or as a retirement payoff. The CBA may empower a department head or supervisor with the ability to grant exceptions to standard procedures at their discretion. These exceptions relate to how hours are accumulated, such as the use of sick time. This is relevant when considering retirement payoffs as the CBAs indicate that distinct types of accumulated hours are paid out upon retirement at different rates. One example of this is in the CBA RPPA 2019 2022, as Article 10.b states that sick time beyond five days at a time is up to the Police Chief's discretion: "The Chief shall make the final determination as to whether sick leave shall be granted and the amount of time allowed." The CBA section continues to explain that "The parties specifically agree any use of more than eleven (11) sick leave days in any twelve (12) month period is considered excessive,"² yet upon examination of the payroll data for respective employee's final periods, these limits were routinely surpassed.

These payoffs were presented and calculated in different forms within BerryDunn's review period. A crucial factor in this calculation was the annual limits for cashing out time, incentivizing employees to cash-out a portion of their hours in the years prior to retirement as permitted by their respective CBA. Based on our interview with the Benefits Manager, the process begins up to four years ahead of an employee's retirement with a conversation about forecasted benefits. Between a month to two weeks ahead of retirement, the Benefits Team would hold a final review meeting to have the retiree sign off on their information. The benefits manager emphasized that this early timeline is for planning purposes, not to function as a source of truth for employees. The single source of truth, as clarified during interviews and follow-up discussions, is the payroll ledger itself once it is paid out.

Depending on the retiree's termination date, Central Payroll would then review the discussed accrued hours and "true up" the values to reflect any time, taken or accrued, that was unaccounted for during the planning meeting. These calculations were based on the New World system's information and the subsequent, final payoff information was not relayed back to the Benefits Team. This meant that, at the time, there were few records maintained depicting the final payoff information for retirees. Retirement Payoff forms were completed with the understanding that they would not match the final sum. These payoffs, for applicable retirees,

² City of Reno and Reno Police Protective Association. November 6, 2019. *Labor Agreement July 1, 2019 – June 30, 2022*. City of Reno, Nevada.

were mixed into their final paycheck sometimes alongside final hours worked and other times as a strict payout.

The process has changed since the audit period. Now payoff values are based upon spreadsheets that the benefits manager, Labor Relations Manager, and Central Payroll Manager constructed in 2022 to standardize the process, showing the calculations influencing payouts. The calculation of final values also accounts for the retiree's premium information on maintained coverage after the date of separation. Retirees are continuously aware of premiums which function as a last check for accuracy.

1.2.7 Deferred Compensation

The City's HR Department Deferred Compensation Standard Operating Procedures (HRBP) explain that the initial enrollment process can be completed online. The HRBPs introduced employees to their various options, and when the employee selected a vendor, Central Payroll would obtain reports of enrollments from the carriers and manually enter the changes into New World. Employees are eligible beginning the first of the month 30 days after they begin employment. During the period examined, initial enrollment documentation of in-person registration was the most recent documentation for multiple employees. It is unclear when the change to virtual enrollment took effect. Employees can access educational information to assist in selecting their compensation plans through the internal intranet system.

When employees wanted to make a change to their contributions, they were instructed to email payroll@reno.gov to request Central Payroll to make changes on their behalf in the New World system. They can also make changes directly in the deferred compensation portal. Much of the supporting documentation for deferred compensation was in the form of screenshots of emails or scans of printed emails. These included handwritten confirmations using employees' personal information, such as social security numbers and employee numbers. The benefits manager explained that these updates and enrollment forms are scanned into OnBase by a separate HR employee, and employees may have their own printed records for safekeeping.

During subsequent meetings with the City, we learned that this process is no longer the standard. Employees may now request their own changes through a Microsoft Form or directly through their provider; however, some employees still default to the email system.

2.0 Objectives, Scope, Methodology, and Testing

2.1 Objectives

The objectives of this review were to:

- Objective 1: Determine whether employee benefits were administered accurately and timely in accordance with applicable laws, regulations, and policies and procedures through sample testing.
- Objective 2: Assess the efficiency and effectiveness of the benefits management process—including internal controls for approvals, permissions, and segregation of duties—and recommend improvements.

2.2 Scope

The review focused on the 01/01/2022 – 12/31/2022 time frame.

Our sample selection for testing came from the same pool of 215 employees (10% of all 2,148 employees) whose data has been made available during the previous payroll performance audit we conducted.

This review focused on the following employee benefit:

- RPSAE-S Article 21(r)
- Quasi-governmental agency employee benefits
- Employee benefits elections
- FMLA
- Retiree premium deductions
- Payoffs for retirees
- Deferred compensation

2.3 Methodology

BerryDunn utilized several methodologies to gather and analyze information throughout the review to address the City's objectives. The methodologies included:

Interviews

BerryDunn conducted interviews with personnel responsible for the management of employee benefits within the City. This included the benefits manager, payroll manager, and a payroll technician. The goal of these interviews and follow-up conversations was to gain an

understanding of the processes, tools, and challenges associated with managing employee benefits.

Review of Documentation

- CBAs
- Deduction Registers
- Pay Day Registers
- FMLA Policy
- Retiree Action Forms
- Contribution Change Forms
- Paycheck Statement
- Medical Insurance Enrollment/Change Form
- Employee Benefit Plans Change/Enrollment Form

2.4 Testing

2.4.1 RPSAE-S Article 21(r)

The City agreed that testing of the CBA language from Article 21(r) related to benefits management cannot be performed, as the City does not play a role in administering or managing the benefits outlined in that section. Under the terms of the CBA, the City is responsible only for contributing 2.5% of Step 1 Sergeant wages biweekly for each member of RPSAE.

The City fulfills this obligation by depositing the contractual amount directly into an RPSAE-owned bank account. These funds are then transferred to a trust that is exclusively managed by and for the benefit of RPSAE members. The City has no further involvement in the management or oversight of these funds, and there is no need for communication between the City and RPSAE leadership, unless an issue arises with the deposit.

Given the City's limited role and the fact that funds are not directly managed by the City, testing of the provisions within Article 21(r) was deemed unnecessary.

2.4.2 Quasi-Governmental Agency Employee Benefits

The City agreed that testing of the employee benefits process for quasi-governmental agencies cannot be performed due to the absence of a consistent, formal procedure for benefit elections. Employees from these agencies do not complete or sign election forms to document their benefit choices. Instead, benefit changes are communicated informally, and any issues are identified and corrected in subsequent pay periods.

Because the process lacks formal documentation and completed election forms, we are unable to verify that the appropriate payments were made by the quasi-governmental agencies to the City. The City relies on reports of the number of employees enrolled in each benefit plan and

send bills to the quasi-governmental agencies based on that information. As a result, without sufficient formal documentation, testing the accuracy of the payments could not be conducted.

2.4.3 Employee Benefits Elections

Purpose: BerryDunn conducted testing to verify the accuracy of employees' elected insurance coverages in comparison to the coverage they paid for. Elections from the most recent available benefits forms were compared to the deductions paid out by employees within our review period. Some of these forms were initial enrollment into a respective health plan, some were changes in response to a QLE, and others were not based on a formal process, such as virtual screenshots of Google form updates. The purpose of this test was to verify that employees receiving medical, vision, and dental insurance were getting the correct coverage that they had elected.

Sample Methodology: To determine the sample for this test, we reviewed a report of all 1,175 employees who received benefits in 2022. We randomly selected a sample of 59 employees, representing 5% of the total population. Employees varied in their roles, titles, family size, and duration of employment.

Results: We were unable to verify the accuracy of employee payments as originally intended due to required documents being too cumbersome for the City to provide. Instead, after communicating with the City, we adjusted our plan to verify if employees' elected coverage matched the plans that they paid for in the test periods.

Out of the 59 individuals in our sample, 15 had clear selections in their most recent forms, 28 were assumed to be correct based on matching familial coverage, and 16 did not provide relevant information. Many forms included updates based on a QLE, such as domestic partnerships or a change in address, but did not indicate the actual elections. The Benefits Manager confirmed that members of each household will have the same elected benefits. With this confirmation, our testing indicated that 16 of 59 (27%) sampled employees did not have clear coverage policies in their enrollment forms that matched accounts in their pay day registers. As we could not verify the value of employee payments, we looked for any account charge named to their policy provider in their payday register, indicating that they were paying for some level of coverage.

2.4.4 FMLA

Purpose: The purpose of this test is to verify that the City accurately calculated and implemented the necessary leave entitlements, including intermittent leave to employees and implemented the correct FMLA policies.

Sample Methodology: To determine the sample for this test, BerryDunn randomly selected employees on FMLA from each of the four pay periods within the examination period: February 24, 2022, April 7, 2022, July 28, 2022, and December 15, 2022. These dates are the payroll period end dates. From each pay period, BerryDunn reviewed the employee lists and chose a 10% random sample, resulting in selecting one sample from each of the four periods.

Results:

After selecting samples for this test, BerryDunn reviewed employee records, including their FMLA requests, approval notices, and any other relevant documentation. Next, FMLA eligibility was verified in accordance with the City's policies and procedures. To be eligible for FMLA, employees are required to be employed at least 12 months (consecutive not required) and worked at least 1250 hours over the previous 12 months prior to FMLA. We then reviewed accrued leave balances such as sick leave and vacation time of employees taking FMLA to help ensure accurate monitoring. Finally, the start and end dates of FMLA leave were verified to match the approved dates on the FMLA request forms.

Upon completion of our test, BerryDunn identified that all four employee samples had completed the required FMLA request forms. Our test also identified that all sampled employees were eligible to take their FMLA leave based on the requirements stated in the sampling methodology. When verifying the FMLA start and end dates, we cross-referenced the request forms with the pay day registers to help ensure accuracy. For the two employees that took continuous FMLA in a certain period with no intermittent leave, both employees started their leave on or after the approved date and ended their leave on or before the approved date. For the two employees that took intermittent leave, one of the employees FMLA leave start and end dates were successfully verified with the pay day registers provided by the City. One employee had a discrepancy in their FMLA intermittent leave end dates, where intermittent leave was being taken beyond the approved end date.

2.4.5 Retiree Premium Deductions

Purpose: The testing of retiree premium deductions aimed to verify that retired individuals previously employed by the City had deductions that matched their respective documentation.

Sample Methodology: To determine the sample group for this test, BerryDunn received a report of all 732 retirees receiving benefits with their hire date and retire date. We then removed the employees who were hired prior to July 1, 1999, and employees who retired prior to 2003. From the remaining 174 retirees, we randomly selected 18 employees for testing. BerryDunn selected four months of retiree disbursements to test the deduction register against the documentation supporting retired employees' preferences. These months were January 2022, March 2022, June 2022, and August 2022. These deduction registers provided insight into the deduction value that each recipient paid for the selected period. BerryDunn compared the provided information to the respective employees' documentation as listed in retiree action forms. These forms detailed employer and employee costs for respective selections, such as medical, dental, vision, and life insurance.

Results: The results of the deductions testing showed that 11 of the 18 retirees had deductions that matched their retirement action form documentation over the testing periods. Two of the 11 retirees with matching deductions had a 100% subsidized plan, meaning their payroll did not include any necessary payments. Five of the retirees had deductions in the payroll that were larger than expected, based on the documentation. One employee had a deduction value on the payroll that was less than expected over each period, with a greater value in their documentation. The final retiree had a separate error, paying \$625.71 in their first retired period and \$208.57 during their second, final period of testing. The \$208.57 value matches the

predicted employee cost in their retirement action form, whereas the \$625.71 deduction reflects the projected employer cost in the retirement action form. The benefits manager explained that this error was identified the month after it occurred, and the employee received a refund the following month.

2.4.6 Retiree Payoffs

Purpose: The retiree payoff testing aimed to assess if a randomly selected group of employees who retired during the period were accurately compensated for their accrued hours. These accrued hours varied depending on employees' respective CBAs, role within their department, and time spent during their employment. Accrued hours were in buckets of sick time, vacation time, and compensatory pay.

Sample Methodology: To determine the sample for this test, BerryDunn received a report of all 42 retiree payoffs paid by the City in 2022. We randomly selected a sample of five employees for testing, representing 10% of the total population.

Results: During our assessment, we were unable to conduct our testing as intended. The employees had varied forms to show their information, and the forms themselves only worked as one source of truth. The forms that BerryDunn received to verify the retirees' payoffs were either a different format of the same source, or too old to accurately support or refute the actual payouts. Three of the employees' files supported their expected payoff determinations, yet these determinations all used values taken from the same source location: New World. The other two employees' payoffs did not match their original source information, however, the City explained that they had reviewed these circumstances and determined that they were not cause for concern. One individual's hours were adjusted during their final period, but this mismatch was due to a standard accounting procedure. The other individual dealt with a long-term illness during their last year of employment that was not under FMLA. During subsequent interviews, the City clarified that the Retirement Payoff Forms are used to make initial leave balance estimates, which are then adjusted, or 'trued up,' closer to the actual separation date. These forms are not official representations, but rather a momentary portrayal of the employee's accrued hours for the retiree's convenience. There are no formal requirements related to the timing of these calculations. When asked for further documentation necessary to complete the intended testing, the City informed BerryDunn that there were not readily available pay records for the employees.

2.4.7 Deferred Compensation

Purpose: The deferred compensation testing process aimed to work to ensure the City of Reno's active employees during the period had the correct paycheck deductions for respective retirement accounts. BerryDunn's testing aimed to match employees' documentation to their actual deductions.

Sample Methodology: To select our sample, BerryDunn reviewed a report of all 1,155 active employees enrolled in the deferred compensation plan in 2022. We randomly selected a sample of 116 employees for testing, representing 10% of the total population. After discussions with

the City, we reduced the sample selection to 60 employees, or approximately 5% of the population, to reduce the burden on HR of providing supporting documentation.

Results: Upon the conclusion of BerryDunn's testing across the four periods, we were unable to verify the deductions for 73% of the employees included in the sample (44 out of 60), or 73%. While employees are able to directly change their deferred compensation deduction with the third-party administrator, we were not provided with any support from the City that corresponded with the deductions in each pay period tested. The supporting documentation provided appeared to be outdated, and we could not verify the current deductions.

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3.0 Observations

3.1 Observation 1 – Lack of Documented Policies and Procedures Led to Inconsistent Benefits Processes

During our review, we identified that the absence of established policies and procedures highlighted several issues in the administration of employee benefits during our review period. The lack of documented benefits processes for employee elections, deferred compensation, retiree premium deductions, and payoffs has resulted in informal processes that lack proper tracking and documentation. Consequently, this has led to inconsistencies in how these processes are carried out, creating potential for confusion and errors. During our review, we identified the following:

- **Employee elections:** We identified that, while there was an informal process, there were no documented policies or procedures used in verifying or maintaining records of elected employee benefits. We encountered challenges in identifying the actual elections for each employee during the review periods. The information provided by the City only showed the most recent changes made to their elections. When the employee's change was the addition or removal of a dependent, there was no record provided of what the employee's current plan was. For example, if an employee was adding a child onto their plan, there was no indication if the employee's existing plan included other beneficiaries. We were informed that the New World system is considered the primary source for the current enrollment and that employees' previous election forms do include details of the current plan; however, the City was unable to provide these documents for records in 2022. The lack of documented policies pertaining to employee benefit elections meant that the information necessary for testing at the intended level of detail was unavailable.
- **Retiree premium deductions and payoff calculations:** During our review, we identified that there were no documented policies or procedures for use to determine the premium deductions and payoffs of accrued hours when meeting with an employee preparing for retirement. During our review period in 2022, only the payroll manager would meet with an employee to discuss what benefits they wish to keep and how much leave they may be able to receive as a payoff at the time of retirement. There was no formal process in place for this meeting or calculation, and when the payroll manager left during 2022, the responsibility to conduct these meetings transferred to the benefits manager. The benefits manager was not provided with guidance on the process the payroll manager performed and has since created a standardized spreadsheet and forms to use based on each union contract.
- **Conflicting FMLA leave end dates:** After reviewing the approval memorandum that specified the authorized start and end dates for an employee's intermittent leave, we cross-referenced the start and end dates with the employee's pay day register to work to ensure FMLA leave was not taken outside of the approved period. This examination

revealed that one employee had taken extended intermittent FMLA leave outside of the approved period. Out of the four employee samples tested, three employees' FMLA leave start and end dates were within the approved time from the City.

Recommendation 1

Develop written policies and procedures for administering and recording employee benefits

BerryDunn recommends the City develops policies and procedures for all aspects of employee benefits administration, including employee elections, deferred compensation, retiree premium deductions, and retirement payoffs. These policies should provide step-by-step guidance on each process, specify who is responsible for tasks, and outline the documentation required at each stage. In addition, the City should establish policies that all information used to support the administration of employee benefits be stored in a centralized location. This will help ensure consistency and accuracy across all employee benefits processes.

We also recommend that the City update physical change request forms to include a historical record of employee benefits elections, including any changes made (such as adding or removing dependents). Change forms should identify the selected benefit plans, so the employee is providing their approval of the plan and rate for each change. This would provide the employee the opportunity to confirm their plan selection, helping to reduce the chance that an employee is enrolled in an incorrect plan.

In addition, we recommend that the City also develop a formal process for conducting retirement benefit meetings, which includes standardized documentation and tools for calculating premium deductions and retirement payoffs. The City should create a checklist or form for the Benefits Manager or any other staff member conducting the meeting to follow. This would help ensure that all aspects of the employee's benefits and leave balances are discussed and documented.

We also recommend that the City establish a process to document any changes to an employee's FMLA leave, such as an extension of the leave period or beginning earlier than expected. The City should update the original FMLA approval form or attach an updated version to reflect the new start and end dates. The updated form should be stored in the employee's file, and a copy should be provided to the employee and their manager to help ensure awareness of the revised leave period.

3.2 Observation 2 – Deferred Compensation Changes Are Not Consistently Updated in Employee Files

During our testing of deferred compensation deductions, we were unable to verify the supporting documentation we received was the most recent information for 44 out of 60 sampled active employees. The City explained that employees are able to directly change their deferred compensation deductions online with the vendor directly, and the City received a report with the changes. The City was unable to confirm if these reports are stored in the employee files when changes are made to the deductions. Due to the lack of sufficient documentation, we

were unable to determine if the deferred compensation deductions were correct for 73% of the employees included in the sample (44 out of 60).

Prior to the online portal, employees were able to make changes to their deferred compensation through various methods, including standardized forms and emails. We were provided emails for several of the sampled employees that asked to change the deferred compensation by a set amount, but no record of any confirmation of the total deduction was provided. In many of these instances, the emails did not correspond to the deductions in the tested payroll periods.

Recommendation 2

Employ a standardized procedure to update and record deferred compensation selections

BerryDunn recommends that the City establishes policies and procedures to maintain historical records of all changes in deferred compensation deductions for each employee and store these records in a central location. Whenever a change is made, whether through the online portal or other methods, a copy of the updated deduction report should be placed in the employee's file to maintain a historical record.

We also recommend that the City improve confirmation procedures for manual changes. When deferred compensation changes are made through non-portal methods (e.g., emails or forms), the City should require confirmation of the total deduction amount from both the employee and Central Payroll. This confirmation should be documented and stored alongside the original request to provide a complete audit trail.

3.3 Observation 3 – Lack of Detailed Documentation Related to Quasi-Governmental Benefits

The City does not routinely request or require employees from quasi-governmental agencies to submit election forms to document their benefit selections. The benefits manager stated that the agencies require that the employees complete these forms internally, but they are not sent to the City. Employee elections and changes are submitted via the employee census process. If any issues arise, they are usually fixed in later pay periods.

This lack of formal documentation of election forms creates a potential risk for the City. While HR can request the elections forms if needed, the City does not maintain a record of them. The City relies on reports showing how many employees are enrolled in each benefit plan and sends bills to the quasi-governmental agencies based on that information; however, without sufficient formal documentation, we cannot accurately test the correctness of the payments being made. This could lead to financial discrepancies and complications for both the City and the quasi-governmental agencies, ultimately affecting the benefits provided to employees.

Recommendation 3

Establish a standardized process for recording benefit elections from quasi-governmental employees

BerryDunn recommends that the City establish formal documentation process for employee benefit elections from quasi-governmental entities. The City should collect employee elections forms for all employees from quasi-governmental agencies and document any changes. This will create a clear record of their selections, allowing for accurate verification of payments made by the quasi-governmental agencies to the City.

Additionally, establishing a standardized procedure for communicating changes in benefits will help ensure that all modifications are properly documented and tracked. Regular audits of benefit enrollments and payments should be conducted to confirm the accuracy of reports and billing between the City and the quasi-governmental agencies. By taking these steps, the City can reduce the risk of financial discrepancies and complications.

3.4 Observation 4 – Retiree Payoff Adjustments

During our examination of the City's retiree premium deductions and retiree payoff process, BerryDunn learned that a standardized spreadsheet has been created to assist in the calculation of the retiree's payoff amount. The spreadsheet is completed by the benefits manager and uploaded into the payroll system prior to the retirement date of the employee. Central Payroll reviews and adjusts the calculations to reflect the ending leave balances prior to payment if needed; however, these adjustments are not communicated to the benefits team. As a result, City management may not have the correct information when reviewing the payoffs for retirees.

During our testing, we determined that the supporting documentation provided for two of the five sampled retirees did not match with the payments made. The response provided by the benefits team indicated that it was likely that Central Payroll had adjusted the ending balances; however, they did not have the final numbers to provide. This complicated our ability to determine the accuracy of the retiree payoffs dispersed during our review period.

Recommendation 4

Increase communication between HR and Central Payroll to help ensure the accuracy of records and retirement payoffs

BerryDunn recommends that the City establish a more coordinated approach between the HR and Central Payroll related to retiree payoffs. The City should implement procedures that help ensure any adjustments made by Central Payroll to the retiree payoff calculations are promptly communicated back to the benefits manager. The benefits manager should maintain a final record that includes each employee's payoff calculation. This can be achieved by implementing a consistent notification process that provides updated ending leave balances and any changes made between initial payoff calculation and the employees termination date. Additionally, the benefits team should conduct regular audits of the payoff calculations against the final figures provided by Central Payroll. This will help ensure the payments made to retirees are accurate and well-supported by documentation. By enhancing communication and oversight between divisions, the City can reduce discrepancies in retiree payoffs.

4.0 Recommendations

Table 1 outlines our recommendations based on the observations detailed in this report. For each recommendation, the table also includes a response from management.

Table 1: Summary of BerryDunn Recommendations

No.	Recommendation	Management Response
1a	BerryDunn recommends the City develops policies and procedures for all aspects of employee benefits administration, including employee elections, deferred compensation, retiree premium deductions, and retirement payoffs. These policies should provide step-by-step guidance on each process, specify who is responsible for tasks, and outline the documentation required at each stage. In addition, the City should establish policies that all information used to support the administration of employee benefits be stored in a centralized location. This will help ensure consistency and accuracy across all employee benefits processes.	HR has developed a collection of documented policies and desk manuals that details all the aspects of employee benefits administration listed. The collection of policies and manuals are maintained in a shared folder in the cloud storage space and is title, Internal Human Resources Team.
1b	We also recommend that the City update physical change request forms to include a historical record of employee benefits elections, including any changes made (such as adding or removing dependents). Change forms should identify the selected benefit plans, so the employee is providing their approval of the plan and rate for each change. This would provide the employee the opportunity to confirm their plan selection, helping to reduce the chance that an employee is enrolled in an incorrect plan.	We maintain the elections changes in the category-based payroll packets for each payroll period as we have determined this to be the most efficient methodology available with our current resources.
1c	In addition, we recommend that the City also develop a formal process for conducting retirement benefit meetings, which includes standardized documentation and tools for calculating premium deductions and retirement payoffs. The City	HR has developed standardized Excel worksheets for each Collective bargaining agreements that delineate payouts and benefit subsidies. Standardized forms reflective of those instructions, are provided to employees

	should create a checklist or form for the Benefits Manager or any other staff member conducting the meeting to follow. This would help ensure that all aspects of the employee's benefits and leave balances are discussed and documented.	regarding retiree health insurance elections and leave pay out calculation estimates whereby employees can inform payroll of preferred handling of retirement payouts. Payroll makes final calculation of hours.
1d	We also recommend that the City establish a process to document any changes to an employee's FMLA leave, such as an extension of the leave period or beginning earlier than expected. The City should update the original FMLA approval form or attach an updated version to reflect the new start and end dates. The updated form should be stored in the employee's file, and a copy should be provided to the employee and their manager to help ensure awareness of the revised leave period.	The City-wide Policy, and corresponding FMLA processes were updated in 2023 and documented in standard operating procedures. Key benchmarks are calendared for follow-up and ultimately closure. Requests for recertification and return to work certifications are made two weeks prior to the end of FMLA time. Leave time hours and paid banks are reviewed after each payroll and anomalies from the designation noted and reported to the BP who collaborates with the employee. Resulting changes to certifications are documented with new designations. Review and closure process for FMLA cases were formalized in 2024 which includes a review of hours and closure of FMLA claims with the employee, payroll liaison and supervisor. These items were not in place during the time period of the audit.
2a	BerryDunn recommends that the City establishes policies and procedures to maintain historical records of all changes in deferred compensation deductions for each employee and store these records in a central location. Whenever a change is made, whether through the online portal or other methods, a copy of the updated deduction report should be placed in the employee's file to maintain a historical record.	Current procedures have been established for our process and all the recommendations are not feasible with our current payroll software.
2b	We also recommend that the City improve confirmation procedures for manual changes. When deferred compensation changes are made through non-portal	We maintain the elections changes in the category-based payroll packets for each payroll period as we have determined this to be the most efficient

	<p>methods (e.g., emails or forms), the City should require confirmation of the total deduction amount from both the employee and Central Payroll. This confirmation should be documented and stored alongside the original request to provide a complete audit trail.</p>	<p>methodology available with our current resources. We acknowledge this methodology is less than ideal, it stalled audit testing and resulted in fewer records tested.</p> <p>The city does confirm deferred compensation changes as a long-standing practice and due to the storage methodology previously stated, there can be problems with the retrieval process when historical documents are needed.</p> <p>We maintain the elections changes in the category-based payroll packets for each payroll period.</p>
3a	<p>BerryDunn recommends that the City establish formal documentation process for employee benefit elections from quasi-governmental entities. The City should collect employee elections forms for all employees from quasi-governmental agencies and document any changes. This will create a clear record of their selections, allowing for accurate verification of payments made by the quasi-governmental agencies to the City.</p>	<p>HR has established a formal documentation process and training program for the quasi-governmental entities employee benefits election administration, ensuring consistent procedural application.</p>
3b	<p>Additionally, establishing a standardized procedure for communicating changes in benefits will help ensure that all modifications are properly documented and tracked. Regular audits of benefit enrollments and payments should be conducted to confirm the accuracy of reports and billing between the City and the quasi-governmental agencies. By taking these steps, the City can reduce the risk of financial discrepancies and complications.</p>	<p>HR has implemented a standardized procedure for recording and reconciling monthly census data and enrollment changes for quasi-governmental entities, ensuring accurate billing and record-keeping.</p>
4a	<p>BerryDunn recommends that the City establish a more coordinated approach between the HR and Central Payroll related to retiree payoffs. The City should implement procedures that help ensure any adjustments made by Central Payroll to the</p>	<p>HR has developed standardized Excel worksheets for each CBA to be used during the retirement cash-out process to enhance the coordination between HR and Central Payroll. The worksheet includes retiree payout estimates and</p>

	<p>retiree payoff calculations are promptly communicated back to the benefits manager. The benefits manager should maintain a final record that includes each employee's payoff calculation. This can be achieved by implementing a consistent notification process that provides updated ending leave balances and any changes made between initial payoff calculation and the employees termination date.</p>	<p>health insurance intent worksheets.</p> <p>The discrepancies noted by the auditors appear to be due to differences in estimates and final calculation. Which could be the usage of hours in the interim time, cashouts taken, etc. The Benefits Manager only provides estimates of payouts given a snapshot in time for the employee's planning purposes, and Central Payroll will calculate the final payout based upon the balance at the exact date of separation just as they would in the case of a termination.</p>
4b	<p>Additionally, the benefits team should conduct regular audits of the payoff calculations against the final figures provided by Central Payroll. This will help ensure the payments made to retirees are accurate and well-supported by documentation. By enhancing communication and oversight between divisions, the City can reduce discrepancies in retiree payoffs.</p>	<p>We recognize regular audits are recommended and have determined our resources will not be used on this task at this time.</p>