



Item: AF: I-3

**AUDIT AND FINANCE COMMITTEE**  
**Wednesday, October 19, 2011**

**SUBJECT: REVIEW OF AUDITS: FAU 10/11-5, AUDIT OF EMPLOYEE BENEFITS DEDUCTIONS FOR THE PERIOD JANUARY 1 THROUGH MARCH 31, 2011.**

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**PROPOSED COMMITTEE ACTION**

Information Only.

**BACKGROUND INFORMATION**

FAU's HR Benefits & Retirement Office has primary responsibility for providing administrative and operational support for university employees who elect to enroll in state-sponsored benefit programs administered by People First.

Primary objectives of the audit were to determine whether:

- Employee payroll benefit deductions were accurate and properly authorized, and the supporting benefit enrollment records for new and continuing employees were processed timely, accurately and in compliance with eligibility requirements; and,
- Remittance of employee benefits deductions to the Division of State Group Insurance was accurate and timely to ensure continuing benefits coverage for enrolled employees.

One recommendation was made to enhance existing written procedures.

**IMPLEMENTATION PLAN/DATE**

Management has agreed to implement the recommendation on October 1, 2011.

**FISCAL IMPLICATIONS**

Not Applicable.

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**Supporting Documentation:** Audit Report FAU 10/11-5

**Presented by:** Mr. Morley Barnett, Inspector General

**Phone:** 561-297-3682

Report No. FAU 10/11-5  
Report Issue Date: June 30, 2011

FLORIDA ATLANTIC  
UNIVERSITY™

*Office of Inspector General*

Audit Report: *Employee Benefits Deductions*  
For the Period January 1 through March 31, 2011


Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

# REPORT ON THE AUDIT OF EMPLOYEE BENEFITS DEDUCTIONS

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**MEMORANDUM**

**TO:** Dr. Mary Jane Saunders  
President

**FROM:** Morley Barnett   
Inspector General

**DATE:** June 30, 2011

**SUBJ:** AUDIT OF EMPLOYEE BENEFITS DEDUCTIONS

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of Employee Benefits Deductions at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made one recommendation to address our finding. We concur with the response of the auditee which has been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of the recommendation by management.

Please call me if you have any questions.

**cc:** University Provost  
Senior Vice Presidents  
Vice Presidents  
Auditees  
FAU BOT Audit and Finance Committee  
Inspector General, Florida Board of Governors  
Florida Auditor General

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## EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of Employee Benefits Deductions at Florida Atlantic University for the period January 1 through March 31, 2011. Primary emphasis was placed on evaluating internal controls and examining selected employee benefit deduction transactions for pay periods during the audit period. The audit was limited to employee benefits offered and managed by the Florida Division of State Group Insurance (DSGI) and administered on a state-wide basis by People First.

Our audit objectives were to determine whether:

- Employee payroll DSGI benefit deductions were accurate and properly authorized, and the supporting benefit enrollment records for new and continuing employees were processed timely, accurately, and in compliance with established eligibility requirements;
- Remittance of employee benefit deductions to the Division of State Group Insurance was accurate and timely to ensure continuing benefits coverage for enrolled employees; and,
- Confidentiality of employee benefit enrollment data and records was maintained.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of employee payroll benefit deductions; employee benefit premium refunds/payments to correct benefit premium over/underpayments; and, biweekly remittances of employee benefit deductions to DSGI / People First, in order to determine whether control procedures were operating effectively.

Based on the audit work performed, we are of the opinion that the evaluated operations pertaining to employee benefits deductions were being conducted in general compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices. However, we did identify an opportunity to improve existing written procedures used by the Human Resources (HR) Benefits and Retirement Office in its administration of DSGI benefits for university employees.

The details of this finding, as well as the suggestion for corrective action, can be found in the Comments and Recommendations section of this report.

June 30, 2011

Dr. Mary Jane Saunders  
President  
Florida Atlantic University  
Boca Raton, Florida

Dear President Saunders:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of Employee Benefits Deductions at Florida Atlantic University for the period January 1 through March 31, 2011. Primary emphasis was placed on evaluating internal controls and examining selected employee benefit deduction transactions for pay periods during the audit period. The audit was limited to employee benefits offered and managed by the Florida Division of State Group Insurance (DSGI) and administered on a state-wide basis by People First.

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We obtained an understanding of the university's operations pertaining to employee benefits deductions by reviewing written policies and procedures, interviewing key personnel, observing actual practices, and analyzing key internal controls.

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Our assessment of compliance with established policies, practices, and procedures was based on reviews of pertinent supporting documentation for samples of judgmentally selected employee payroll benefit deductions; employee benefit premium refunds/payments to correct benefit premium over/underpayments; and, biweekly remittances of employee benefit deductions to DSGI / People First. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls and assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## BACKGROUND

The university is a participant in the comprehensive package of pre-tax and post-tax health and welfare insurance benefits for active and retired state employees and their families offered and managed by the Division of State Group Insurance (DSGI) – a unit of the Florida Department of Management Services (DMS). Since 2002, DMS has contracted with Convergys Customer Management Group, Inc. (acquired by NorthgateArinso, Inc. in 2010) to provide Human Resources (HR) services for the state through the People First system. People First is the state's self-service, secure, web-based personnel information system and enterprise-wide suite of HR services. The system streamlines and automates many of the state's HR functions including payroll preparation, attendance and leave, recruitment, benefits administration, human resources management, and organizational management.

FAU's HR Benefits & Retirement Office has primary responsibility for providing administrative and operational support for university employees who elect to enroll in DSGI benefit programs. Eligible existing employees may make DSGI benefit enrollment changes during the annual open enrollment period or as a result of a qualifying status change (QSC) event. Eligible new employees are allowed to initially make DSGI benefit enrollments within 60 days of their hire. Eligible new and existing employees may make DSGI benefit enrollments/changes *directly* with People First - through their secure website using a pre-assigned unique userID and password or by submitting completed election forms/documents to the People First Service Center – or *indirectly* by submitting the appropriate forms/documents to HR Benefits & Retirement for internal processing, and forwarding to People First.

Specific duties of the HR Benefits & Retirement Office include, but are not limited to, the input of employee DSGI benefit enrollments/changes to the Banner HR system; the processing of any annual employee/employer DSGI benefit premium rate changes on Banner HR; and, the review, research, and resolution of DSGI premium differences for employees appearing on the monthly People First *Benefits Underpayment/Overpayment* report. The Payroll Department of the Controller's Office has responsibility for the remittance of the biweekly payroll deductions/contributions for employee/employer DSGI benefit premiums to DSGI / People First.

During the course of the audit, the HR Benefits & Retirement Office and the Payroll Department were each staffed by four employees respectively. For the *seven* biweekly pay periods occurring totally or partially during the quarter-ended 3/31/11, the university remitted - to DSGI - approximately \$1.9 million of employee benefit deductions and \$7.9 million of employer benefit contributions.

## COMMENTS AND RECOMMENDATIONS

### **Current Findings and Recommendations**

#### *Need for Improved Written Desktop Procedures*

The HR Benefits & Retirement Office is responsible for the review, correction, and disposition of items appearing on the People First *Benefits Underpayment/Overpayment* report. The report identifies employees whose DSGI benefit(s) are either underpaid or overpaid for the requested coverage period and is updated (by People First) on a monthly basis.

Options for the resolution of DSGI benefit premium differences for employees listed on the abovementioned report include, *but are not limited to*, requests to refund employee/employer premium overpayments; requests to re-allocate employee/employer premiums from one coverage period to another (“move money” requests); and, the funding and remittance of appropriate employee/employer premiums to correct premium underpayments. Each of the aforementioned actions are required to be supported by multiple documents prepared and approved by designated university personnel, with certain documents being submitted to People First, and certain documents/monetary items being submitted to the university Controller’s Office, as applicable, for processing.

Our review of available written policies and procedures pertaining to the role of the HR Benefits & Retirement Office in the administration of DSGI benefits for university employees indicated that while HR had written desktop procedures relating to the review of the benefits underpayment/overpayment report and the processing of refund requests, these procedures were not complete, and as up-to-date as possible, given recent procedural changes made by DSGI. Examples of out-dated or incomplete guidance included:

- References in the existing procedures to the receipt and processing of refund checks (i.e., state warrants) from DSGI. Currently, refunded premiums are remitted by DSGI via electronic funds transfers (EFTs) to the university’s main clearing bank account at Bank of America;
- The absence of instructions relating to the preparation, approval, and routing of the journal entry form, and applicable supporting documents, required to record the receipt of the DSGI premium refunds (via EFT credits) on the Banner Finance system;
- Insufficient detail in the existing procedures to adequately address the processing steps to re-allocate employee/employer premiums from one coverage period to another (i.e., “move money” requests); and,
- Insufficient detail in the existing procedures to adequately address the processing steps to fund and remit appropriate employee/employer premiums to correct benefit premium underpayments.



## Recommendation No. 1

We recommend that management draft appropriate new written procedures, and update existing written procedures, to ensure adequate documentation of current practices relating to the processing actions necessary to resolve DSGI benefits underpayments/overpayments for university employees. Such guidance would be valuable for helping to ensure accurate and timely processing of corrective transactions, continuity of operations, and training support for new HR Benefits & Retirement Office employees.

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### **Management's Response**

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#### **Action Plan:**

We agree with the recommendation to prepare new and updated internal procedures specifically related to resolving benefit underpayments and overpayments. Human Resources agrees that additional process detail will be added to ensure consistent application. In addition, while the current internal procedures (i.e., the procedures applicable during the audit period) refer to the processing of refund premiums via the receipt of refund "checks", it should be noted that two days prior to the end of the subject audit period, FAU received its first refund from DSGI via an Electronic Funds Transfer (EFT). This change in the DSGI refund process from the use of paper checks to EFTs came without advance notice, and prompted discussions with staff of Human Resources and the Controller's Office to ensure accurate processing of electronic transactions. In this regard, the necessary updates to the internal procedures will now include the processing of EFTs.

**Implementation Date:** October 1, 2011

**Responsible Auditee:** James Acton, Human Resources Director

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#### **Prior Audit Recommendations**

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three years, our office has not conducted any audits related to employee benefits deductions. Accordingly, a follow-up on prior audit findings is not applicable.

### **CONCLUSION**

Based on the audit work performed, it is our opinion that the evaluated operations pertaining to employee benefits deductions were being conducted in general compliance with applicable laws, rules and regulations, university policies and procedures, and sound business practices. However, we did identify an opportunity to improve existing written procedures used by the HR

Benefits and Retirement Office in its administration of DSGI benefits for university employees. We believe the recommendation made is cost-beneficial to implement, and will serve to strengthen the overall internal control environment pertaining to the review, research, and resolution of DSGI benefit premium underpayments/overpayments for employees.

We wish to thank the staffs of the HR Benefits & Retirement Office and the Payroll Department for their cooperation and assistance which contributed to the successful completion of this audit.

A handwritten signature in cursive script, reading "Morley Barnett".

Morley Barnett, CPA, CFE  
Inspector General

Audit Performed By: Mike Hewett, CIA, CGAP, CBA, CFSA  
Allaire Vroman