



Internal Audit Department

Affordable Care Act

**May 2017
Report Number FY 17-10**

This page left blank intentionally.

Northern Arizona University
Affordable Care Act
Audit Report
May 17, 2017

Summary

Our audit of NAU's compliance with the Affordable Care Act is in the Annual Audit Plan for FY 2017, as approved by the Audit Committee of the Arizona Board of Regents. This audit links to NAU's strategic goal of sustainability and effectiveness.

Background: In March 2010, the Patient Protection and Affordable Care Act (ACA) was signed into law, and designed to increase health insurance quality and affordability, lower the uninsured rate by expanding insurance coverage and reduce the costs of healthcare. Two provisions of the Affordable Care Act apply to NAU:

- The employer shared responsibility provision and
- The employer information reporting provision for offers of minimum essential coverage.

Employer Shared Responsibility Provision

The employer shared responsibility provision requires NAU either offer minimum essential coverage that is *affordable* and provides the *minimum value* to their full-time employees (and their dependents), or potentially make an employer shared responsibility payment to the Internal Revenue Service (IRS). The Act defines dependent as an employee's child (including a child who has been legally adopted or placed for adoption) who has not reached the age of 26; spouses, stepchildren or foster children are not considered dependents. Further, the Act defines a full-time employee as employed on average at least 30 hours of service per week or 130 hours per month. Two employer shared responsibility payments exist with each calculated differently depending on whether the employer does not offer or does offer minimum essential coverage to at least 95 percent of its full-time employees (and their dependents). Because NAU does offer minimum essential coverage to at least 95 percent of its full-time employees (and their dependents), it is not subject to any potential fines under this category, which was \$3,240 per employee for 2016.

An employer-sponsored plan provides *minimum value* if it covers at least 60 percent of the total allowed cost of benefits that are expected to be incurred under the plan. To determine *affordability*, the Act permits the use of three safe harbors: 1) Form W-2 wages; 2) an employee's rate of pay; or 3) the Federal Poverty Line (FPL). NAU determined affordability based on the 2016 Department of Health and Human Services federal poverty guidelines, which was \$95.63 for an individual.

Northern Arizona University
Affordable Care Act
Audit Report

The three types of medical plans and five networks offered through NAU and the State of Arizona as well as the corresponding monthly costs for an individual are as follows:

Sponsored By	Network	Plans		
		PPO	EPO	HSA
Northern Arizona University	BCBSAZ	\$60.83		
	BCBSAZ (COBRA)	\$604.69		
State of Arizona	Aetna	\$102	\$40	\$20
	BCBSAZ	\$102	\$40	
	CIGNA		\$40	
	United Health Care	\$102	\$40	

Type of Medical Plan	Description
Preferred Provider Organization (PPO)	<ul style="list-style-type: none"> In a PPO, you receive the greatest benefit when you use providers included in the Plan's 'Preferred' network. You may use providers not in the Plan's 'Preferred' network, but your out of pocket expenses will be greater.
Exclusive Provider Organization (EPO)	<ul style="list-style-type: none"> To receive any benefit under an EPO you must use providers included in the Plan's 'Exclusive' provider network. Services received from providers not in the Plan's 'Exclusive' network at not covered.
High Deductible Health Plan (HDHP) & Health Savings Account (HSA)	<p>This option has two pieces:</p> <ul style="list-style-type: none"> HDHP - This plan has a high deductible, which is the amount you pay out of pocket before you receive any benefit. HSA - Pre-tax contributions are made by both you and the university into an account from which you can pay for out-of-pocket expenses.

Northern Arizona University
Affordable Care Act
Audit Report

Per the 2016 Summary of Benefits and Coverage for each plan offered, the plans provide minimum essential coverage and meet the minimum value standard of 60% (actuarial value) for the benefits it provides. NAU meets the FPL safe harbor because the employee's required contribution for the calendar month for the lowest cost self-only coverage that provides minimum value is \$95.63 or less. The employee's required contribution for 2016 for the lowest cost self-only coverage was \$20 per month for the Aetna HSA plan.

Employer Information Reporting Provision

Annually, NAU is required to report to the IRS information about offers of, and enrollment in, health care coverage for full-time employees using Form 1094-C and Forms 1095-C. NAU must also furnish a statement (Form 1095-C) to employees that includes the same information provided to the IRS.

Because of benefit eligibility assessment, Human Resources monitors ACA compliance using the Equifax ACA Management Platform (Equifax). eThORITY is the database within the platform that houses the employee data. Reporting functionality in Equifax allows for monitoring and reporting of each NAU employee. Human Resources works closely with each university department to monitor and identify variable hourly employees who average 30 hours or more per week during a 12-month measurement period to determine if voluntary benefits need to be offered to the variable hour employee because they meet the definition of a full-time employee under the ACA. Variable hour employees work primarily in temporary non-benefit eligible positions that are not intended to continue indefinitely, or whose hours vary and they do not qualify for benefits. Temporary positions may be filled by employees that are classified in a wide range of variable hour employment categories, including student employment, graduate assistantship, temporary hourly/salaried employment and part-time faculty.

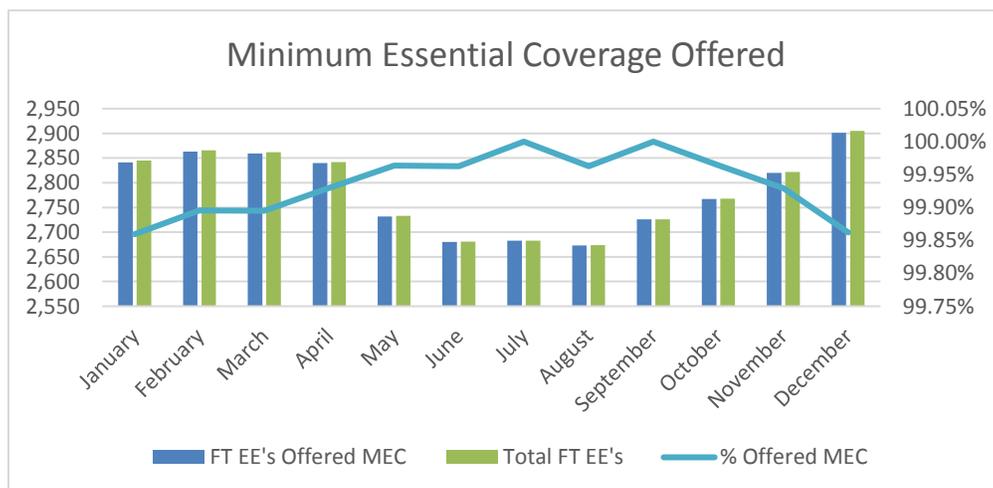
Every pay period a PeopleSoft query of relevant payroll and leave of absence data is uploaded into the eThORITY database. eThORITY Source Files Import Status and Exceptions report is reviewed by Human Resources to determine if the data file was successfully uploaded. Once successfully uploaded, Human Resources reviews the listing of full-time and variable hour employees to ensure its accuracy. Using the query data loaded into the eThORITY database, Equifax automatically calculates the weekly average hours in the measurement periods and benefit eligibility for new hires based on service dates. In addition, the verification of employees that exceed the 30-hours per week threshold is performed manually by Human Resources using Equifax reports to provide further assurance that Equifax is accurately tracking these employees.

Northern Arizona University
Affordable Care Act
Audit Report

At the end of the calendar year, the data file is exported from Equifax and uploaded to Paperless Employee to efficiently report offers of, and enrollment in, health care coverage to full-time employees using Form 1095-C. Paperless Employee is operated by CIC Plus, Inc., which is an employee self-service solution provider that offers year-end tax form services, online pay stubs, etc. Annually, the data file for each Form 1095-C and the transmittal Form 1094-C are electronically submitted to the IRS. During calendar year 2016, 3,275 Forms 1095-C were issued based on monitoring a total of 11,024 employees broken down as follows:

Full-Time (benefit eligible)	3,257
Part-Time (benefit eligible)	202
Regular Hourly	1
Variable Hourly	5,338
Variable Salaried	<u>2,226</u>
 Total Employees	 <u><u>11,024</u></u>

The ACA established the employer shared responsibility payment calculations based on offering or not offering minimum essential coverage to at least 95 percent of its full-time employees (and their dependents). Even with all of the ACA monitoring and compliance intricacies, NAU achieved an average of 99.93% offer of coverage to its ACA defined full-time employees for calendar year 2016, which is more than the 95 percent threshold established by the ACA. The following depicts the offer of coverage throughout calendar year 2016:



Northern Arizona University
Affordable Care Act
Audit Report

Audit Objective: The primary objective of the audit is to determine if NAU is meeting the compliance and reporting requirements of the Affordable Care Act.

Scope: The scope of our audit included a review of all policies and procedures governing management and monitoring of compliance and reporting requirements of the Affordable Care Act as well as other procedures that helped us achieve our primary audit objective. We reviewed system reports supporting compliance and reporting requirements that occurred during calendar year 2016, as well as current practices and procedures.

Methodology: The following procedures were performed to accomplish the audit objective:

- Reviewed the IRS, U.S. Department of Health and Human Services and Arizona Department of Administration Benefit Services Division websites
- Reviewed ABOR and NAU policies and procedures relevant to the ACA
- Interviewed Human Resources management and staff responsible for compliance and reporting requirements of the ACA
- Reviewed the Equifax ACA Management Platform's system configuration and validation setup by noting employee categories/demographics, measurement period configurations, benefit plans offered, benefit transactions and leave of absence hours
- Reviewed Equifax reports used to monitor and manage compliance and reporting requirements
- Sampled and tested employment data for full-time, part-time and variable employees by comparing to PeopleSoft Human Resources files, recalculating measurement periods and ensuring leaves of absence were considered in the average weekly hours calculated for a measurement period.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Conclusion: NAU is meeting the compliance and reporting requirements of the Affordable Care Act. The use of the Equifax ACA Management Platform allows for efficient and effective monitoring of all classifications of NAU employment to ensure compliance requirements are met; while the use of Paperless Employee allows for accurate and timely reporting requirements.

One recommendation was made: to obtain assurance of proper internal controls at the service organization.

Northern Arizona University
Affordable Care Act
Audit Report

Observations: We noted:

- Human Resources staff attended training programs provided by consulting firms, professional associations and the IRS. Webinars offered by the IRS, professional associations and consulting firms continue to be attended as they are available.
- Human Resources staff received extensive training related to the Equifax ACA Management Platform.
- Human Resources provides reports periodically to supervisors, managers and Vice Presidents to communicate employees that are averaging full-time hours per week as defined by the ACA as 30 hours or more per week in a measurement period.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommen- dation No.	Page No.
Reliability and Integrity of Financial and Operational Information			
• PeopleSoft queries and Equifax reports are used to track all employee classifications	Reasonable to Strong Controls in Place		
• Equifax system parameters are reviewed by management	Reasonable to Strong Controls in Place		
• Management oversight is provided to ensure compliance and reporting are accurate and timely	Reasonable to Strong Controls in Place		
Safeguarding of Assets			
• The Equifax ACA Management Platform is backed up	Reasonable to Strong Controls in Place		
• Sensitive information is adequately protected	Reasonable to Strong Controls in Place	1	8

Northern Arizona University
Affordable Care Act
Audit Report

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommen- dation No.	Page No.
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> • Policies and procedures exist for ACA compliance and reporting requirements 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> • Systems, processes and procedures are used to efficiently and effectively manage ACA compliance and reporting requirements 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> • Results of PeopleSoft queries are uploaded to eThority 	Reasonable to Strong Controls in Place		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> • NAU complies with Federal guidelines 	Reasonable to Strong Controls in Place		

We appreciate the assistance of the staff of Human Resources.

/s/
Karletta Jones
Senior Internal Auditor
Northern Arizona University
(928) 523-4136
karletta.jones@nau.edu

/s/
Mark Petterson
Chief Audit Executive
Northern Arizona University
(928) 523-6438
mark.petterson@nau.edu

Northern Arizona University
Affordable Care Act
Audit Report

Audit Results, Recommendations and Responses

1. A Service Auditor's Report should be obtained annually.

Condition: NAU has not obtained a Service Auditor's Report from Equifax regarding Equifax' controls and the effectiveness of those controls.

Criteria: Statement on Standards for Attestation Engagements (SSAE) 16, Reporting on Controls at a Service Organization, became effective on June 15, 2011. SSAE 16 benefits user organizations by enabling them to obtain valuable information regarding a service organization's controls without having to audit the controls themselves.

Cause: NAU was not aware of the availability of a Service Auditor's Report.

Effect: NAU has not obtained assurance that controls over ACA reporting at Equifax are adequate.

Recommendation: Human Resources should obtain Service Auditor's Reports from the service organization annually.

Response: Human Resources has requested the most recent version of Equifax's Service Auditor's Report and will request future versions annually.

Northern Arizona University
Affordable Care Act
Audit Report

Distribution:

Audit Committee, Arizona Board of Regents
Internal Audit Review Board
Rita Cheng, President
Cindy Chilcoat, Director, Human Resources
Bjorn Flugstad, Vice President, Finance, Institutional Planning and Analysis
Joanne Keene, Executive Vice President and Chief of Staff
Christina Kuhl, Manager, Human Resources
Michelle Parker, General Counsel
Wendy Swartz, Associate Vice President and Comptroller
Priscilla Timeche, Management Analyst, Human Resources
Diane Verkest, Chief Human Resources Officer

This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.