



Internal Audit Department

Employee Benefits

May 2017
Report Number FY 17-11

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Northern Arizona University
Employee Benefits
Audit Report
May 16, 2017

Summary

Our audit of Employee Benefits is in NAU's Annual Audit Plan for FY 2017. The audit links to NAU's strategic goal of sustainability and effectiveness.

Background: Northern Arizona University, The Arizona Department of Administration (ADOA) Benefit Services Division and the Arizona Board of Regents sponsor the benefits plans available to all eligible state employees, including active state and university employees, retirees, COBRA members and qualifying dependents. During the fall open enrollment period each year, eligible employees can sign up for voluntary benefits and can generally choose between at least two network providers and coverage amounts. A summary of the voluntary benefits available is as follows:

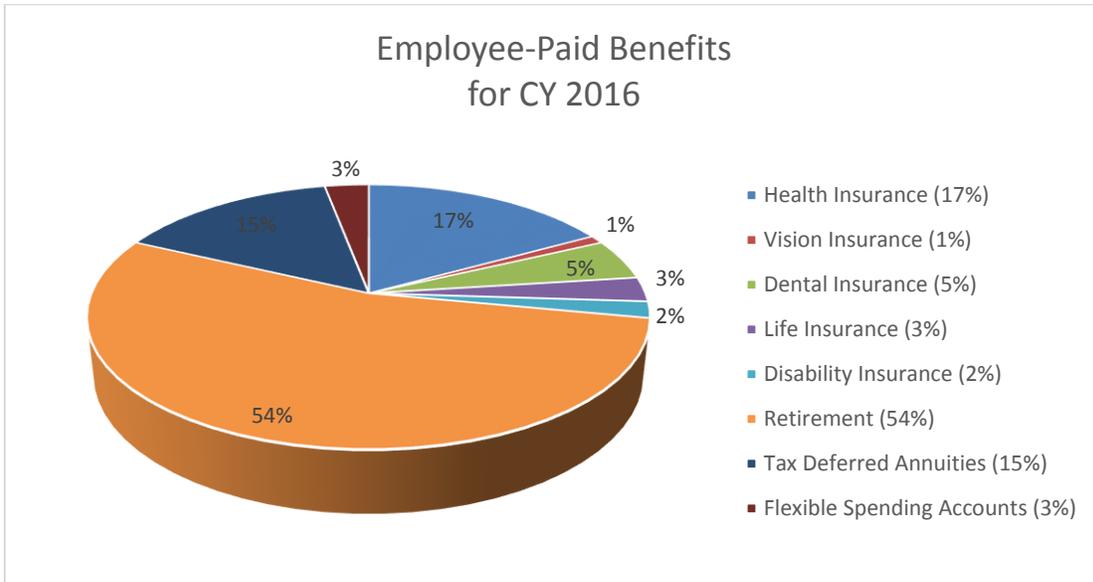
- Medical Insurance (employee and dependents)
- Dental Insurance (employee and dependents)
- Vision Insurance (employee and dependents)
- Short-Term Disability Insurance
- Supplemental and Dependent Life Insurance
- ASI Flexible Spending Accounts

University employees are required to enroll in one of the State's retirement plans. The plans offered depend on the employee's job classification and include:

- The Arizona State Retirement System (ASRS) with Long Term Disability
- The Optional Retirement Plan (ORP) with Long Term Disability
- The Public Safety Personnel Retirement Systems (PSPRS) with Long Term Disability

Supplemental retirement plans offer additional savings for retirement. For calendar year 2016, NAU's active employees contributed \$33,169,772 for employee benefits. The benefit types as a percentage of total employee benefits costs are as follows:

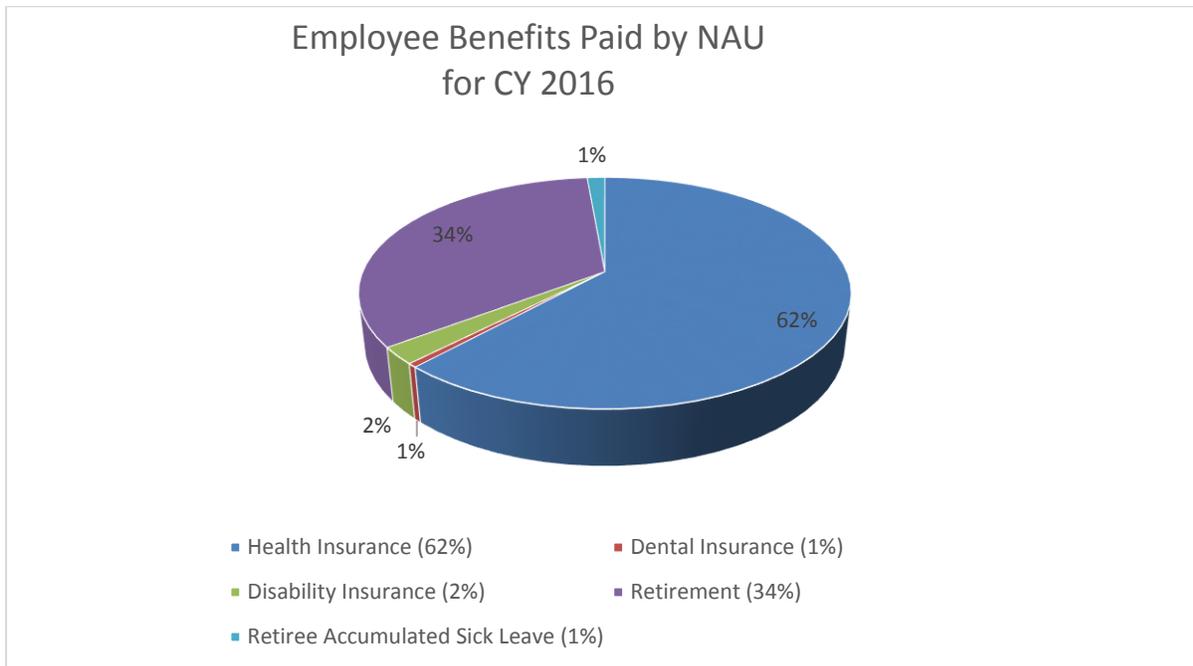
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Employee payroll deductions for the retirement plans (ASRS, ORP, and PSPRS) totaled \$17,971,580 and accounted for 54 percent of the employee payroll deductions, excluding payroll tax in CY 2016. Employee contributions for health insurance premiums accounted for 17 percent (\$5,580,735) of the payroll deductions while payments for tax-deferred annuities accounted for 14 percent (\$4,790,311) of the payroll contributions, excluding payroll tax.

The University contributed \$55,218,740 on behalf of active employees for employee benefits in CY 2016. Sixty-two percent (\$34,131,724) of the amount for employee-related expenses (ERE) was to cover employee health insurance premiums. Thirty-four percent (\$18,723,255) funded employee retirement plans. The benefits types as a percentage of total employee benefits (ERE) costs are as follows:

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The Human Resources Benefits unit educates new employees on the employee benefits available to them, conducts annual open enrollment, educates employees of benefit changes, provides an online platform in PeopleSoft to select and enroll in benefits, calculates and posts the correct amount of payroll deductions for each employee, and answers employee questions.

Audit Objective: The primary objectives of this audit were to ensure NAU is withholding correct amounts for employee benefits from paychecks, is calculating employee-related benefits (ERE) correctly, and paying correct amounts to vendors and administrators for employee benefits.

Scope: The scope of our audit included a review of CY 2017 rates as authorized and applied to January 2017 payroll. We reviewed the policies and procedures currently in effect to ensure that the amounts paid to vendors and administrators on behalf of employees are accurate. Imputed income added to an employee's income for tax purposes was not included in our review.

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Methodology: We performed the following procedures to accomplish the audit objectives:

- distributed and reviewed questionnaires to HR Benefits staff to gain an understanding of how contribution rates are determined and applied to payroll;
- verified that the contribution rates in effect were as established by the governing agency or, where allowed, as negotiated by NAU and ABOR;
- verified that the contribution amounts were accurate by recalculating the health insurance premiums paid to ADOA for the pay period ended January 1, 2017;
- verified that the flat contribution amounts for dependent life insurance, basic life insurance, and Worker’s Compensation were accurate by recalculating the amount paid to vendors and administrators for the pay period ended January 1, 2017;
- selected a sample of employee checks to confirm that contributions not based on flat rates were calculated correctly. These contributions are based on gross wages, coverage amounts, and/or the age of the employee and include retirement plans, voluntary disability insurance, and supplemental life insurance; and
- confirmed that employees are made aware of available employee benefits and how they can make changes to their benefit selections.

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

Conclusion: NAU is managing employee benefits properly. Withholding from paychecks for benefits is correct, employee-related benefits are calculated correctly, and vendors/administrators are being paid the proper amounts for employee benefits.

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 | Recommendation No. | Page No. |
|---|--|--------------------|----------|
| Reliability and Integrity of Financial and Operational Information | | | |
| <ul style="list-style-type: none"> • Payroll deductions for employee benefits are accurately posted to employee checks. | Reasonable to Strong Controls in Place | | |
| <ul style="list-style-type: none"> • Payments to vendors and administrators are adequately calculated and supported. | Reasonable to Strong Controls in Place | | |

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| 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 | Recommendation No. | Page No. |
|---|--|---------------------------|-----------------|
| Effectiveness and Efficiency of Operations | | | |
| <ul style="list-style-type: none"> The amounts and percentages applied to payroll checks for employee benefits are as authorized. | Reasonable to Strong Controls in Place | | |
| <ul style="list-style-type: none"> The amounts and percentages applied to employee-related expenses (ERE) are as authorized. | Reasonable to Strong Controls in Place | | |
| <ul style="list-style-type: none"> Employees are made aware of benefits available to them. | Reasonable to Strong Controls in Place | | |
| Compliance with Laws and Regulations | | | |
| <ul style="list-style-type: none"> The amounts and rates in effect comply with contribution rates established by governmental agencies and agreements. | Reasonable to Strong Controls in Place | | |

We appreciate the assistance of the staff of Human Resources.

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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.