Executive Summary

Audit Objectives

- Verify state-mandated medical and retirement benefit changes are accurate and timely.
- Verify employee medical elections were processed accurately and timely.
- Validate that employee elections of TRS or ORP were processed accurately and timely.
- Assess whether state contributions for medical benefits and retirement were only requested for eligible employees.
- Determine whether medical and retirement disbursements were accurate, timely and properly supported.

PVC Leader

Diane E. Snyder

Background

The state of Texas provides medical benefit and retirement programs for eligible employees, administered by Employees Retirement System (ERS) and Teacher Retirement System (TRS), respectively. Through ERS, several medical plan options are available. For retirement, all full time staff are required to participate in TRS, while faculty and administrators may choose an Optional Retirement Program (ORP) instead. State law requires contributions to these retirement programs based on a percentage of the employee’s salary.

Alamo Colleges is responsible for collecting and sending monthly premiums and retirement contributions to the state or administrator. In fiscal year 2013-14, Alamo Colleges’ medical and retirement employee deductions totaled $2.9 and $9 million while employer contributions were $15.8 million and $9.5 million, respectively. State funds pay for a portion of the employer contribution, totaling $9.9 million and $3.6 million, respectively.

Findings

- Medical rates and retirement percentages were updated accurately and timely in Banner.
- Employee elections of TRS or ORP were processed accurately and timely.
- A statistical sample of employees, during a four month period, revealed that 7 of 79 (9%) medical election changes were not processed accurately or timely.
- Medical and retirement disbursements to the state were timely. However, reconciliations between state invoices and deduction details were not being performed monthly to ensure billing accuracy.
- The February 2014 Community/Junior College Report was submitted timely but included 63 misclassified employees for state reimbursement, resulting in an overpayment to the state of $3,900 ($46,800 annualized).

Conclusion

State-mandated medical rates and retirement percentages were entered into Banner accurately and timely for fiscal years 2013 and 2014. Additionally, eligible employee elections for TRS or ORP were processed accurately and timely.

However, employee medical elections were not processed accurately and timely, as 9% of medical plan changes made by employees in the ERS system were not updated in Banner, resulting in inaccurate payroll deductions. Medical and retirement disbursements were not accurate or properly supported due to a lack of monthly reconciliations. Finally, discrepancies were noted within the process used to identify eligible employees for reimbursement, resulting in a potential overpayment to the state of $46,800 for fiscal year 2014.

Management Corrective Action

Linda Boyer-Owens, Associate Vice Chancellor of Human Resources and Organizational Development will enhance the Senate Bill 1812 report, and Pamela K. Ansboury, Associate Vice Chancellor of Finance and Fiscal Services will ensure that the revised report can be used to identify state reimbursable positions by May 31, 2015.

Linda Boyer-Owens will ensure that the Texas Connection Consortium (TCC) ERS Insurance Billing Comparison Report is implemented to enhance the reconciliation process by May 31, 2015, and will determine feasibility of implementing the TCC ERS Insurance/Flex Upload programs to enhance timely and accurate benefit change request processing by November 30, 2015.
DETAILED FINDINGS AND RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Finding 1</th>
<th>Improve process of identifying positions eligible for state reimbursement</th>
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<tbody>
<tr>
<td>Priority Rating</td>
<td>Moderate (requires timely action by management to mitigate risks)</td>
</tr>
</tbody>
</table>

Alamo Colleges receives funds for employees participating in the Teacher Retirement System (TRS), Optional Retirement Program (ORP) and Employees Retirement System (ERS) for health insurance. Beginning September 1, 2013, Senate Bill (SB) 1812 limited the state of Texas contributions for community colleges to 50 percent for members whose duties are instructional and administrative. Community colleges must pay the state contribution amounts on the remaining 50 percent as well as 100 percent for all other members employed by Alamo Colleges.

Alamo Colleges Human Resources and Organizational Development (HR&OD) identified employees eligible for state reimbursement using the position funding source in Banner and the HR&OD job descriptions. However, the monthly Community/Junior College Report used for state reimbursement reporting, which includes the total amount due to the state, is based on employee’s position funding source only.

A comparison of the two methods used to establish state reimbursement for February 2014 revealed that 63 employees had different eligibility status for state reimbursement, detailed as follows:

- 12 facilities employees did not qualify for state reimbursement but were identified as eligible
- 51 employees qualified for state reimbursement but were identified as ineligible, including 21 facilities staff performing administrative tasks, 27 employees with multiple positions and 3 employees working under revenue-funded grants

The net effect of these differences resulted in Alamo Colleges overpaying the state $3,900 in February 2014. The annualized estimate of the overpayment was $46,800. Not adequately identifying positions eligible for reimbursement could also result in overbilling the state.

Corrective Action

Human Resources & Organizational Development, with assistance from Finance & Fiscal Services management, should enhance the HR 1812 Report for Payroll staff to accurately identify positions eligible for state reimbursement, incorporating the fields and date range capabilities required by Payroll.

Remediation Accountability

<table>
<thead>
<tr>
<th>Senior Leader:</th>
<th>Managers:</th>
<th>Target Completion:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diane Snyder, VC</td>
<td>Linda Boyer-Owens, AVC of HR&amp;OD</td>
<td>4/30/2015</td>
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<tr>
<td>Pamela Ansboury, AVC of FFS</td>
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<td>5/31/2015</td>
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Management Response (if applicable):

Linda Boyer-Owens, Associate Vice Chancellor of Human Resources & Organizational Development will ensure programming to enhance the current HR 1812 report for use by Payroll in accordance with the agreed upon report parameters and features required to efficiently and accurately report positions for state reimbursement. The enhanced report will be provided to the Payroll area by April 30, 2015.

Pamela K. Ansboury, Associate Vice Chancellor of Finance & Fiscal Services will ensure acceptance testing of the report by the Payroll area and implementation of an accepted version for state reporting and reimbursement by May 31, 2015. Until the report is implemented, Pamela Ansboury will ensure the Payroll area continues to manually apply eligibility criteria not included in the current Community/Junior College report.

It should be noted that the criteria for Senate Bill 1812 is slightly different than the actual monthly amounts reported to the State. Alamo Colleges has mentioned this to The Higher Education Coordinating Board and they have acknowledged they are aware these differences. Therefore, Alamo Colleges should expect to have a small difference each month from what is reported in the Senate Bill 1812.
<table>
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<th>Finding 2</th>
<th>Enhance controls over changes to employee benefits</th>
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<tr>
<td>Priority Rating</td>
<td>Moderate (requires timely action by management to mitigate risks)</td>
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The HR&OD department has responsibility to review employee/employer benefit premiums resulting from new or existing coverage and to setup refund requests. Differences in premiums between the ERS and Banner can result from new employees enrolling in the ERS benefit programs, existing employees making changes on the online ERS System during the annual open enrollment period, or existing employees making changes on the online ERS System due to a qualifying status change event.

ERS makes available a daily file of benefit changes and a monthly file of all elections. The process used by the HR & OD to review, research and resolve premium differences is extremely labor intensive and prone to errors. Internal Audit selected a statistical sample of benefit changes during the period of September 2013 and March through May 2014, for testing. The results showed that 7 of 79 (9%) employee records had discrepancies as follows:

- Four were not processed timely
- Two had corrections to the employee premium, but not the employer premium
- One had arrears setup, but not all funds were collected

Errors and untimely processing of employee benefits can result in inaccurate deductions requiring reimbursements to the employee or adjustments to an employee’s deductions for recoupment of premiums.

**Corrective Action**

Human Resources & Organizational Development management, with the assistance of District Information Technology Services (ITS), will evaluate the Texas Connection Consortium (TCC) ERS Insurance/Flex Upload programs when they are released to determine its feasibility and program customizations required for use by Alamo Colleges. These programs will ensure that changes to employees’ insurance and flex coverages are captured and uploaded into Banner. In the meantime, HR should secure training and access to the ACL software package used by Internal Audit to run the same scripts or macros used to automate the comparison of ERS and Banner data.

**Remediation Accountability**

| Senior Leader: | Diane Snyder, VC | Manager: | Linda Boyer-Owens, AVC of HR&OD | Target Completion: | 11/30/2015 |

**Management Response (if applicable):**

Linda Boyer-Owens will ensure Human Resources Information System (HRIS) staff secures ACL software training and access to automate the comparison of ERS and Banner files by January 31, 2015. Linda Boyer-Owens will ensure HRIS and District ITS continue to work with TCC to expedite a solution and assess the feasibility of implementing the TCC ERS Insurance/Flex Upload programs to enhance timely and accurate benefit change request processing by November 30, 2015 or as soon as a TCC release is received and assessed.

The effort to streamline the ERS to College feed has been ongoing for over 4 years by Alamo Colleges and TCC. It is projected that a solution will not be available prior to Fall 2015.
Finding 3 | Perform monthly reconciliation of benefit premium charges  
---|---
Priority Rating | Moderate (requires timely action by management to mitigate risks)

Each month, Alamo Colleges pays employee, employer and retiree insurance premiums to the state. The amount paid is based on a report titled “Insurance and TexFlex Premium Due vs. Premium Paid.” This report is requested by the Finance and Fiscal Services Payroll area, but the details supporting the report are not downloaded. Payments to the state are made timely; however, no reconciliation is performed to ensure accuracy of the report.

Internal Audit performed a reconciliation of a three-month period from April to June 2014. The variances between the ERS insurance detail data and the Banner Payroll Deduction Register report revealed potential errors and differences that required further investigation. Overpayments for April, May and June were $46,595, $40,388, and $64,039 respectively.

A large portion of the variance is attributed to Alamo Colleges’ 9-month faculty pay cycle. The state bills Alamo Colleges on a monthly basis; however, higher premiums are deducted from 9-month pay cycle employees to ensure coverage for the entire year. No premiums are deducted in the months of June, July and August. In addition, retiree elections and related premiums are not provided to Alamo Colleges, therefore are not captured in banner. Since retirees are included in the ERS bill, any reconciliation should exclude retiree premiums.

Internal Audit selected a judgmental sample of 25 employees with a difference of more than $100 from the May 2014 reconciliation. The finding shows that premiums for 11 employees were incorrect, resulting in an overpayment to the state by $4,071.

Monthly reconciliation of invoices would have identified these errors, which may have gone undetected. Reconciliations are also an important internal control for detecting missing or fraudulent premium payments.

**Corrective Action**

Human Resources & Organizational Development management is implementing the TCC ERS Insurance Billing Comparison Report. This report was developed by TCC and has been tested by HR to help identify discrepancies between employees’ Banner insurance deductions and the ERS billing information. HR will use this file to audit for discrepancies from prior months as this is an after-the-fact reporting tool. Meanwhile, HR will download ERS insurance billing files from September 2014 forward to allow the Finance & Fiscal Services Department to recreate prior month comparisons. Procedures for this process should be documented to ensure accurate and consistent reconciliations of employees’ benefit premiums.

HR is responsible for ensuring detailed employee records in Banner agree to detailed employee records in ERS. HR should reconcile detailed employee records at a minimum monthly.

**Remediation Accountability**

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<tr>
<td>Diane Snyder, VC</td>
<td>Linda Boyer-Owens, AVC of HR&amp;OD</td>
<td>1/31/2015</td>
</tr>
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**Management Response** (if applicable):

Linda Boyer-Owens will ensure that the TCC ERS Insurance Billing Comparison Report is implemented (downloaded and used to identify discrepancies) to enhance reconciliation process by January 31, 2015. A detailed employee by employee reconciliation will be done at a minimum monthly to ensure records are accurate.

Finance & Fiscal will continue to process the invoice for employee benefit premiums to ERS monthly and attach the detailed employee download provided by HR as support for the payment.

The problems stemming from the 9-month faculty pay option was a known issue. In the summer of 2013, HR gained President & Vice Chancellors (PVC) approval to discontinue the 9-month option and place all full-time faculty on a 12-month cycle. Faculty was notified in 2013 and a 1-year adjustment period for the change was afforded faculty. The 12-month faculty pay cycle was implemented on September 1, 2014 to remediate many of the issues identified above.

Report No. 2014-03
SCOPE AND METHODOLOGY

Internal Audit performed the following:

- Evaluated the design and controls of the benefit processes
- Tested the processes for effectiveness using statistical and judgmental employee benefit data samples
- Assessed the benefits remittance and reporting processes

CRITERIA

Texas Administrative Code Title 34 Public Finance Part 3 Teacher Retirement System of Texas Chapter 25 Membership Credit
  Subchapter A Service eligible for Membership
    §25.1 Full-time Service
    §25.6 Part-time or Temporary Employment
  Subchapter B Compensation
    §25.35 Employer Payments for New Members
    §25.37 Employer Payments from Public Junior Colleges and Public Junior College Districts
  Subchapter M Optional Retirement Program
    §25.171 Election of ORP
    §25.172 ORP and TRS

Texas Administrative Code Title 34 Public Finance Part 4 Employees Retirement System of Texas
  Chapter 69 Membership and Refunds
    §69.1 Employees Covered by Teacher Retirement System
  Chapter 81 Insurance
    §81.5 Eligibility
    §81.7 Enrollment and Participation

Senate Bill 1812, effective September 1, 2013, related to employer retirement contribution on 50% of instructional and administrative employees.

AUDITING STANDARDS

We conducted this audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

ACKNOWLEDGEMENTS

We would like to acknowledge and thank the management and staff in the Human Resources & Organizational Development and Finance & Fiscal Services Departments who assisted us in completing this audit.

AUDIT REPORT DISTRIBUTION

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Vice Chancellor for Finance and Administration 
Associate Vice Chancellor for Human Resources & Organizational Development
Associate Vice Chancellor for Finance & Fiscal Services 
Ethics & Compliance Officer
General Counsel