UT Southwestern
Medical Center

Benefits Review

Internal Audit Report 23:03

July 26, 2023

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Executive Summary

Background

The University of Texas Southwestern Medical Center (UTSW) provides various benefits to active and retired employees through The University of Texas System Office of Employee Benefits (OEB). Systems utilized in benefit processes include Benefitfocus for administration of active employee benefits, UT Retirement Manager (UTRM) for management of Optional Retirement Program (ORP) and Teacher Retirement System of Texas (TRS) benefits, MyTime for entry and tracking of hours, and PeopleSoft for processing payroll benefit deductions and retirement benefit administration.

Enrollment is completed by the employee within Benefitfocus and the Benefits team reviews and approves or denies the elections prior to finalization. Benefitfocus regularly produces a variance report that is reviewed and adjusted (e.g., missed premiums, missed retirement plan deductions, etc.) by the Benefits team, as needed, and is provided to the Payroll team for deduction processing. Any TRS deductions that have exceeded the annual limit (i.e., FY2023 is $24,400[1]) are manually adjusted, as PeopleSoft configuration does not automatically cap TRS deductions before they reach the maximum limit. TRS limits are based on fiscal year resulting in manual adjustments because of timing differences between fiscal year and calendar year, while ORP limits are based on calendar year and are automatically adjusted.

Additionally, UTSW utilizes two overtime payment models (i.e., overtime payout and overtime accrual / banking) for non-exempt employees. The eligibility for either of these models is based on job code and pay rule. Employees who are assigned the overtime accrual model have their overtime hours banked to be utilized as time off in the future, or to be paid out at the end of each fiscal year. Tracking of overtime hours occurs within MyTime and then are transferred into PeopleSoft.

[1] Reporting Contribution Rates FY2017-Present (texas.gov)

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Scope and Objectives

The Office of Institutional Compliance & Audit Services (OICAS) has completed its Benefits Review. This was a risk-based audit and part of the fiscal year 2023 Audit Plan.

The audit scope period included activities of the Benefits and Payroll Departments from 9/1/2022 to 5/31/2023. The review included an evaluation of the operational processes and controls, including monitoring procedures for ensuring accurate assignment of employee benefits and compliance with federal and state requirements, as well as the assessment of the policies, procedures, and practices for the MyTime overtime payout model (i.e., overtime payout vs. overtime accrual). Payroll outside of overtime, leave of absence, in-house employee assistance program (EAP), and any UT System performed processes (e.g., Benefit Vendor Determination, Pricing, etc.) were out of scope for this review. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, sample testing, and data analytics.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Fieldwork was initiated, performed, and completed during May and June 2023 and consisted of the following primary objectives:

- Evaluating the current benefits policies, procedures, and practices to understand if UTSW is in alignment with key federal, state, and UT System requirements.
- Evaluating the sufficiency of the processes, internal controls, and monitoring in place for the administration of benefits (e.g., eligibility including qualifying events, enrollment, disbursements, terminations, etc.).
- Validating through limited testing that select key benefits controls are operating effectively.
- Assessing the policies, procedures, and practices for the MyTime overtime payout model (i.e., overtime payout vs. overtime accrual) processes to verify that they are designed appropriately, have controls in place, and validate they are operating as intended (i.e., per policies, procedures, regulations, management's expectations). Specific processes assessed included how an overtime payout model is chosen for each personnel / department, how the overtime benefits are adjudicated, how the payroll department is informed of changes, how the personnel are informed of changes, and whether information is provided prior to acceptance of job offer for any changes, etc.

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Conclusion

Overall, the Office of Institutional Compliance & Audit Services ("Internal Audit" or IA) identified various opportunities for improvement to increase the sufficiency and consistency of the current benefits and overtime payout model processes. Opportunities exist to improve the control environment through the following: update policies, procedures, and/or guidelines in place to fully and adequately define the current processes, and key benefits processes are performed manually.

Included in the table below is a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (3)	Low (2)	Total (5)

Key observations are listed below.

- **Overtime Payout Model Processes** – Inconsistencies were identified between practices and understanding related to the management of overtime payout models due to lack of specificity within the *Fair Labor Standards Act, Overtime Compensation, and Holiday Compensatory Time (EMP-204)* policy. For example, department managers and supervisors can determine and change overtime payout models at their discretion without leadership approval, the frequency in which changes can be made are not outlined, and there is not a formalized process for how and when employees are informed of overtime payout model changes. Additionally, a report does not exist to easily identify, track, or monitor requests and historical changes.

- **Employee Termination Date / Status Submissions** – Ineligible employees (e.g., terminated, on leave of absence, etc.) sometimes retain benefits because the employee's termination date or status is either not updated or not updated timely in PeopleSoft by the Department Manager. These instances are identified through the premium reconciliation process; however, the instances are not tracked or monitored for accountability of properly documenting and reporting employee status changes. In addition, Benefitfocus (UTSW's Benefits Administrator) is not integrated with PeopleSoft (i.e., payroll system) and requires manual transaction reports to be worked every pay period to identify any premium deductions that need to be modified.

- **Retirement Insurance Eligibility** – Sufficient monitoring processes are not in place to validate individuals enrolled in UTSW retiree insurance meet all eligibility criteria and inconsistencies were noted in practice. UTSW manually reviews job history data in PeopleSoft to determine whether an individual meets eligibility requirements for retiree insurance. IA identified 1 of 10 (10%) retirees was erroneously enrolled in UTSW retiree insurance at the time of retirement (i.e., did not meet eligibility criteria).

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- **Teacher's Retirement System of Texas (TRS) Contribution Monitoring** – Sufficient processes are not in place to review TRS contributions timely, resulting in contributions occasionally exceeding a highly compensated employee's fiscal year allowable limit, which requires a manual refund. IA identified 59 instances where an employee's contribution exceeded their 2022 fiscal year limit and required a manual refund totaling approximately $69K.

- **Detailed Procedures for Manual Benefits Processes** – Key processes (e.g., premium reconciliations, TRS contributions, etc.) for managing benefits are performed manually and the overall process governing which detailed transactions are required to properly operate the queries and Excel spreadsheets are not documented in sufficient detail to allow for a new and/or inexperienced employee to perform the work currently performed by the benefits leads in the event of unexpected turnover, etc.

Management has plans to address the issues identified in the report. Action Plan Owners are designated individuals responsible for implementing the issue resolution. Action Plan Executives are individuals responsible for overseeing or managing the issue resolution. Executive Sponsors are Senior Leadership members who are responsible for ensuring the identified issue is resolved. These responses, along with additional details for the key improvement opportunities identified above, are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to take the opportunity to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

Natalie Ramello

Natalie Ramello, J.D., Vice President of Compliance & Chief Compliance Officer / Interim Audit Executive

Audit Team:

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response

Risk Rating: Medium 🟡
 	
1. **Overtime Payout Model Processes**
 	
Inconsistencies were identified in practices and understanding related to the management of overtime payout models due to lack of specificity within the applicable policy. Specifically, the following were noted within the *Fair Labor Standards Act, Overtime Compensation, and Holiday Compensatory Time (EMP-204)* policy:
 	
• *EMP-204* allows for department managers and supervisors to determine and change overtime payout models from compensatory overtime (i.e., accrual) to paid overtime at their discretion without departmental / system leadership approvals.
 	
• While informal communications are held (i.e., office meetings), there is not a formalized process to outline expectations for how and when employees are informed of overtime payout model changes for their job code.
 	
• *EMP-204* does not outline the frequency in which changes to overtime payout models for each individual job code can be made. Although it is Payroll's expectation that changes are not made more than once per calendar year per job code, this is not specified within *EMP-204*.
	Payroll leadership should:
	
	1. Collaborate with other UTSW leadership (e.g., finance, etc.) to determine if there is a justification for maintaining two distinct overtime payout models and assess management's appetite for standardizing all employees to one overtime payout model.
	
	2. Review and update EMP-204 to include specific guidelines on how often a job code can change between compensatory overtime and paid overtime (e.g., once per fiscal year, once every 2 fiscal years, etc.), when requests can be made (e.g., at any point in time, during a specific "enrollment" period [e.g., September 1st through September 30th of each fiscal year], etc.), and what additional departmental and system leadership approvals should be required. All updates to the policy should be communicated to all appropriate staff members.
	
	3. Either create a preventative control that only allows overtime payout model changes to be made at determined frequency or create a report, and supporting review processes, which tracks the changes to the overtime payout model for each job code for historical reference. In addition, ownership for monitoring the changes
		Management Action Plans:
		
		1. Leadership will review the population of employees receiving compensatory overtime (i.e., accrual) and determine whether to sunset this method or continue to utilize the accrual model.
		
		2. If it is determined the accrual model will be sunset, payroll leadership will:
		
		  a. Determine the best method to pay out any current compensatory overtime (i.e., accrual) balances.
		
		  b. Review and update all applicable employee's pay rules.
		
		  c. Update and/or deactivate the pay rules associated with accrual of overtime.
		
		  d. Update and/or deactivate the earn codes and pay codes associated with accrual of overtime.
		
		  e. Update *Fair Labor Standards Act, Overtime Compensation, and Holiday Compensatory Time (EMP-204)* to reflect the changes.
		
		  f. Communicate all changes to applicable employees.
		
		3. If it is determined the accrual model will continue to be utilized, payroll leadership will:

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response

• While requests to change overtime payout models are made through ServiceNow tickets, a report does not exist to easily identify, track, or monitor requests and historical changes resulting in manual processes if tracking and monitoring were to occur.
 	
• There is an inconsistent understanding of the two overtime payout models resulting in the potential of candidates and individuals hired into a same job code across different departments not being informed of the following:
 	
  ○ The differences of how overtime is compensated (i.e., paid overtime vs. accrued compensatory overtime).
 	
  ○ The potential of the overtime payout model changing annually.
 	
  ○ The ability of the department managers and supervisors to change the overtime payout model at their discretion.
 	
  ○ The potential of the overtime payout model changing upon promotion or transfer.
 	
Due to the aforementioned inconsistencies, there is risk of not properly understanding leadership's expectations resulting in inappropriate overtime payout model changes without notification to employees causing
	should be designated to a payroll management member.
	
	4. Work with all departments involved in the recruiting, onboarding, and orientation of new hires to ensure understanding of both overtime payout models as well as develop communication to new hires to ensure understanding of their specific job code overtime payout model.
	
	5. Work with department managers and supervisors to create a formalized process (e.g., standardized email, letter, etc.) to communicate overtime model changes to employees. In addition, ownership for monitoring that the process is being adhered to should be designated to a payroll management member.
		a. Review and update *Fair Labor Standards Act, Overtime Compensation, and Holiday Compensatory Time (EMP-204)* policy to outline specific procedures related to the frequency and when the payout model can be changed, who is authorized to make and approve such changes, and how the changes are to be communicated to employees. The updated policy will be distributed to applicable employees.
		
		b. Develop a mechanism (e.g., report, etc.) to track and monitor pay rule changes and establish responsibility and frequency for monitoring.
		
		c. Develop and distribute communications to departments involved in recruiting and onboarding, informing them of the different overtime payout models and employee options.
		
		Action Plan Owner(s):
		Blake Johnson, Director, Payroll
		
		Action Plan Executive(s):
		Jeremy Falke, Vice President and Chief Human Resources Officer
		
		Executive Sponsor(s):
		Jeremy Falke, Vice President and Chief Human Resources Officer

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
unclear payment processes and employee dissatisfaction.		**Target Completion Dates:** December 31, 2023
Risk Rating: Medium 🟡 2. **Employee Termination Date / Status Submissions** Ineligible employees (e.g., terminated, on leave of absence [LOA], etc.) sometimes retain benefits because the employee's termination date or status is either not updated or not updated timely in PeopleSoft by the Department Manager. One sample payroll variance report reviewed from May 25, 2023, consisted of approximately $25K in premiums that were unable to be deducted from 33 employee paychecks that require further follow-up to determine eligibility and status. These instances are identified through the premium reconciliation process and the employee's benefits remain active while the Benefits Department follows up with the department to attempt to resolve the variance. However, these instances are not tracked or monitored for accountability of properly documenting and reporting employee status changes. The process for premium reconciliation requires a dedicated staff member to monitor and process any changes to premium deductions. In addition, Benefitfocus (UTSW's Benefits Administrator) is not integrated with	Benefits leadership should: 1. Develop a process requiring departmental response within a set time frame (e.g., 24 hours, etc.) in instances where employee information appears to not be updated timely. 2. Develop a process to consistently track and monitor instances where individuals have active benefits but no paycheck because of untimely PeopleSoft updates. 3. Ensure departmental leadership is informed and the premium cost is transferred to that department, in instances where benefits are unable to be retroactively terminated due to information not being updated within 90 days.	**Management Action Plans:** Benefits leadership will: 1. Develop a process to establish clear expectations and guidelines for departmental response to inquiries related to employee status. 2. Track and monitor instances where individuals have active benefits but no paycheck due to untimely PeopleSoft updates. 3. Work with the Human Resources Information Systems (HRIS) team to evaluate options to promptly and/or automatically notify the Benefits team of employee terminations, so appropriate actions can be taken to remove the termed employee from Benefitfocus. 4. Develop and utilize a platform that incorporates status changes as it relates to employee leave of absences and terminations that will proactively enable the Benefits team to update the impacted employees' benefits. 5. Escalate any instances where information is not appropriately updated by the department within 90 days to department leadership. Transfer any associated

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
PeopleSoft (i.e., payroll system) and requires manual transaction reports to be worked every pay period (both monthly and bi-weekly) to identify any premium deductions that need to be modified.		premium costs incurred to the department. **Action Plan Owner(s):** Devona Swiney-Gray, Director, Employee Benefits and Wellness Ajeeth Viswanath, Director, HRIS **Action Plan Executive(s):** Jeremy Falke, Vice President and Chief Human Resources Officer Sherri Toney, Assistant Vice President, Employee Relations **Executive Sponsor(s):** Jeremy Falke, Vice President and Chief Human Resources Officer **Target Completion Dates:** December 31, 2023
Risk Rating: Medium 🟡 3. **Retirement Insurance Eligibility** Sufficient monitoring processes are not in place to validate individuals enrolled in UTSW retiree insurance meet all eligibility criteria and inconsistencies were noted in practice as further described below. UTSW manually reviews job history data in PeopleSoft to determine whether an individual meets eligibility requirements for retiree insurance.	Benefits leadership should: 1. Review the identified exception and validate the benefits have been updated to terminate UTSW retiree insurance coverage. 2. Review the current listing of UTSW retiree insurance recipients to validate they met all eligibility criteria and remove coverage for those who do not. 3. Develop a report, process, and/or ongoing control to routinely review	**Management Action Plans:** The Benefits team will: 1. Review the identified exception and validate the benefits have been updated to terminate UTSW retiree insurance coverage. 2. Review all individuals currently receiving UTSW retiree insurance and validate that they met all eligibility criteria; remove coverage for those who do not.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
IA reviewed a limited sample of retired individuals and identified 1 of 10 (10%) retirees was erroneously enrolled in UTSW retiree insurance at the time of retirement (i.e., did not meet eligibility criteria).	retired individuals becoming eligible for UTSW insurance to ensure they meet the eligibility criteria. Perform periodic audits / reviews to ensure enrollees for retirement benefits meet the eligibility criteria.	3. Investigate the ability to develop a report that allows for routine review of individuals becoming eligible for UTSW retiree insurance to ensure they meet all eligibility criteria prior to being enrolled in the retirement plan. If able to be created, this report should be reviewed monthly to ensure enrollees meet the eligibility criteria. If this report is unable to be created, implement a manual process to monitor eligibility monthly. **Action Plan Owner(s):** Devona Swiney-Gray, Director, Employee Benefits and Wellness Ajeeth Viswanath, Director, HRIS Bill Daley, Director, Information Resources (IR) **Action Plan Executive(s):** Jeremy Falke, Vice President and Chief Human Resources Officer Sherri Toney, Assistant Vice President, Employee Relations Jodi Levy, Assistant Vice President, IR **Executive Sponsor(s):** Jeremy Falke, Vice President and Chief Human Resources Officer Russell Poole, Vice President and Institutional Chief Information Officer

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Target Completion Dates: October 31, 2023
Risk Rating: Low 🟢 4. **Teacher Retirement System of Texas (TRS) Contribution Monitoring** Sufficient processes are not in place to review TRS contributions timely, resulting in contributions occasionally exceeding a highly compensated employee's fiscal year allowable limit, which requires a manual refund. IA reviewed TRS contributions for fiscal year 2022 and identified 59 instances where an employee's contribution exceeded their 2022 fiscal year limit and required a manual refund totaling approximately $69K. TRS contributions are manually reviewed, until a suspension of contributions is manually added within Benefitfocus, against fiscal year limits because the process is not automated as TRS operates under a fiscal year while PeopleSoft calculates deductions by calendar year.	The Benefits team should: 1. Review the identified exceptions and determine if the refunds have been sent to the employees that were impacted by the 59 instances. 2. Develop a report that would easily allow them to identify if refunds were successfully processed and sent to the respective employees, without having to pull and review the pay detail for each employee. 3. Continue to monitor TRS contributions regularly (e.g., prior to each payroll run). In addition, the Benefits team should consider placing accounts on suspension prior to individuals hitting the maximum contribution amount to avoid having to manually process refunds. 4. Track and monitor refunds for TRS contributions to monitor the effectiveness of when suspensions are being placed on the accounts. 5. Collaborate with IR to identify any processes or reporting mechanisms to assist with automating or further monitoring this process.	**Management Action Plans:** The Benefits team will: 1. Review the 59 identified exceptions to confirm whether refunds have been appropriately processed for these instances and if they have not, work to collect the refunds. 2. Continue to develop a process involving TRS contribution query runs in advance of each payroll run to quantify estimated deduction amounts for employees that may be at risk of reaching the annual limits and proactively adjusting these amounts prior to the deduction. 3. Work with the HRIS team to evaluate alternate mechanisms through which to further automate the process of proactively identifying and preventing employees from exceeding the annual TRS contribution limit. In the meantime, continue to monitor contributions for each payroll period. Suspend contributions for accounts identified to be close to the maximum contribution amount prior to exceeding the maximum limit. Process refunds for any instances where contributions exceed the maximum limit.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Action Plan Owner(s): Devona Swiney-Gray, Director, Employee Benefits and Wellness Ajeeth Viswanath, Director, HRIS **Action Plan Executive(s):** Jeremy Falke, Vice President and Chief Human Resources Officer Sherri Toney, Assistant Vice President, Employee Relations **Executive Sponsor(s):** Jeremy Falke, Vice President and Chief Human Resources Officer **Target Completion Dates:** October 31, 2023
Risk Rating: Low 🟢 5. **Detailed Procedures for Manual Benefits Processes** Key processes (e.g., premium reconciliations, TRS contributions, etc.) for managing benefits are performed manually and the overall process governing which detailed transactions are required to properly operate the queries and Excel spreadsheets are not documented in sufficient detail to allow for a new and/or inexperienced employee to perform the work currently performed by the benefits leads in the event of unexpected turnover, etc.	The Benefits team should: 1. Develop detailed standard operating procedures for each step required to pull and analyze queries and any necessary calculations (of deductions, refunds, etc.). 2. Train additional personnel in critical processes such as the premium reconciliation process. The large volume of employees and future expansion of employees should be considered to ensure sufficient knowledge and support of critical processes. Benefits leadership should	**Management Action Plans:** The Benefits team will: 1. Develop and/or update existing policies, procedures, standard operating procedures (SOPs), and/or guidelines to document key benefits processes for appropriate and efficient knowledge transfer to current and future employees. Utilize these materials, once developed, to cross-train additional personnel in these processes. 2. Work with the HRIS team to evaluate existing software / systems for opportunities to streamline and/or

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
It is generally perceived that these processes are currently operating effectively as the individuals who oversee these processes have years of historical knowledge. Due to relying heavily on institutionalized knowledge, the Benefits Department runs the risk of significantly impairing the functionality of their current manual processes in the event of continued expansion of UTSW or turnover of personnel in the current team. With the manual processes and lack of overall procedures, new or inexperienced employees would potentially have an exceedingly challenging time performing the required operations needed to maintain the benefits processes.	evaluate whether additional staff may be needed to assist with the functions currently being performed by the Benefits team.	automate the current manual benefits processes. **Action Plan Owner(s):** Devona Swiney-Gray, Director, Employee Benefits and Wellness Ajeeth Viswanath, Director, HRIS **Action Plan Executive(s):** Jeremy Falke, Vice President and Chief Human Resources Officer Sherri Toney, Assistant Vice President, Employee Relations **Executive Sponsor(s):** Jeremy Falke, Vice President and Chief Human Resources Officer **Target Completion Dates:** October 31, 2023

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Priority	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
	Low	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.