

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

MANAGE AND ADMINISTER BENEFITS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of managing and administering benefits. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Participant data is properly recorded on a timely basis.
- B. Approved adjustments and changes to data are input for processing completely and accurately.
- C. Participant eligibility is verified.
- D. Contributions are recorded for the appropriate amount and in the appropriate period.
- E. Participant database and supporting data are safeguarded.

Reliability of financial reporting

- A. Actuarial valuations reflect the understanding and agreement of the plan committee or responsible officials.
- B. Complete and accurate data are used in actuarial valuations.
- C. Access to accounting records is properly authorized.

Compliance with applicable laws and regulations

- A. Employee benefit transactions and reporting are in compliance with government oversight rules.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

Effectiveness and efficiency of operations

A. Participant data is properly recorded on a timely basis.

Business risks

- Employee elections not to participate will not be confirmed.
- Participant lists will not match lists of employees or retirees.
- Erroneous benefits or amounts will be delivered to employees or retirees.

Control practices

1. Control participant forms for procedures such as enrollment, transfers, and investment allocation and maintain them for future reference.
2. Use enrollment forms to reconcile the number of plan participants.
3. Maintain subsidiary records for participants who are active, retired, or terminated with vested benefits.
4. Reconcile plan records maintained by the sponsor with information maintained by third-party service providers.
5. Update and reconcile participant data to employers' personnel and payroll records, or, in a multiemployer plan, to records of participating employers.
6. Encourage participants to review transactions that have been initiated electronically or directly with the third-party administrator.
7. Reconcile subsidiary records to source documents periodically.
8. Retain employee participation refusals for future reference.
9. When contracting with a third-party service provider, ensure that plan administrators follow established policies and procedures to provide reasonable assurance that the provider's input into the record-keeping system is accurate and complete.
10. When contracting with a third-party service provider, ensure that plan administrators adhere to established policies to follow up on all reconciling items in a timely manner.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

B. Approved adjustments and changes to data are input for processing completely and accurately.

Business risks

- Inputs and adjustments will not be approved by authorized individuals.
- Inputs and adjustments will be made for incorrect amounts or in improper periods.
- Erroneous benefits and amounts will lead to employee distrust, complaints, or litigation.

Control practices

1. Compare reports following inputs and updates to source documents for system adjustments as part of a one-to-one check to verify completeness and accuracy.
2. Perform a one-to-one check of adjustments input into the system via a comparison between post input/update reports to the adjustment source of data to verify accuracy of key data fields including date.
3. In using batch totals, ensure that after separation of input documents into groups that numerical totals are calculated in such categories as the quantity of documents, dollar amount, and hash items. Compare batch totals to reports following inputs and updates. Research all out-of-balance conditions and reenter corrected data on a timely basis.
4. Ensure that an appropriate official approves changes to standing data before input.
5. Support each change to the data with sufficient documentation.
6. Ensure that those responsible for standing data complete a regular review to verify data accuracy.
7. Ensure that the system produces a report of changes in certain types of standing data or for changes falling outside certain parameters and forwards the report to management for review.

C. Participant eligibility is verified.

Business risks

- Participant eligibility will not comply with the approved plan instrument.
- Ineligible individuals will be included in benefit programs.

Control practices

1. Define eligibility in the plan instrument.
2. Ensure that enrollment applications or third-party enrollment reports are reviewed and approved by the plan committee or a responsible official.
3. Ensure that an appropriate official approves all additions to the participant list after confirming eligibility with evidence in supporting documentation.
4. Periodically verify the existence and status of participants with external information sources.
5. Ensure that the enrolled participant list is periodically matched to participant records.
6. Ensure that any exceptions are investigated and adjustments are approved by a responsible official.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

D. Contributions are recorded for the appropriate amount and in the appropriate period.

Business risks

- The amount of employee contributions will be recorded incorrectly.
- Employee contributions will be recorded in the wrong period.
- Erroneous benefits and amounts will lead to employee distrust, complaints, or litigation.

Control practices

1. Compare sponsor or employer payroll records with contribution calculations. In multiemployer plans, ensure some form of periodic payroll audit.
2. Establish initial controls over contribution records for both employer and participant contributions (for example, salary reduction amounts or after tax contributions).
3. Check clerical accuracy of information on contribution forms.
4. Reconcile subsidiary contribution records to reports from the trustee or asset custodian or from the third-party administrator.
5. Reconcile contribution forms to the cash receipts ledger and to bank deposits.
6. Maintain control totals for participant and employer contributions.
7. Issue participant contribution receipts that include notices requesting reviews of discrepancies.
8. Remit participant contributions to the trust established to manage the funds within guidelines prescribed by U.S. Department of Labor (DOL) regulations.
9. When contracting with a third-party service provider, ensure that controls are in place to apply contribution remittances to the appropriate plan, to process participant accounts accurately and completely according to the investment options selected by the participant, and to distinguish between money types (that is, contributions versus loan repayments). Ensure that procedures are in place for the provider to review documents on a timely basis for accuracy and completeness.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

E. Participant database and supporting data are safeguarded.

Business risks

- Unauthorized persons will have access to participant database.
- Fraudulent activity and theft will occur.

Control practices

1. Limit access to computer records to those with a logical need for such access.
2. Allow only authorized personnel to have physical access to the computer facility containing hardware, peripherals, communications equipment, backup media, sensitive output, and forms.
3. Ensure that formal procedures are in place for granting and terminating access to company facilities, including the computer center, and that those procedures are followed.
4. Allow only authorized personnel to have physical access to blank check stocks, printers, and signature fonts.
5. Administer and maintain computer logical access security according to management's intentions and authorization.
6. Ensure that computer security administration personnel follow written instructions from authorized management to remove or modify access rights of terminated and transferred employees.
7. Limit to authorized individuals access to computer resources such as application programs, data files, sensitive utilities, and system commands.
8. Grant access to the system by issuing each user a unique user name and password.
9. Limit access to systems based on job responsibilities.
10. Limit to authorized individuals the ability to modify files controlling program execution and production data.
11. Ensure that participants receive confirmation notices for accuracy of additions and modifications of data.
12. Ensure that plan administrators have procedures in place to follow up on data discrepancies in a timely manner.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

Reliability of financial reporting

A. Actuarial valuations reflect the understanding and agreement of the plan committee or responsible officials.

Business risks

- Employee benefit transactions and reporting will violate terms of the established plan document.
- Actuarial valuations will not accurately reflect the obligations and funded status of each benefit plan.

Control practices

1. Ensure that the plan committee or other responsible and knowledgeable officials discuss their financial reports with an appropriately licensed actuary in a timely manner and agree to the actuarial methods and significant assumptions. Factors to be considered include discount rate, prior service costs, long-term rate of return, and the method for amortizing actuarial gains and losses.
2. Ensure that the plan committee or other responsible and knowledgeable officials assess for reasonableness results of the actuarial calculations, including the benefit obligation, prepaid (accrued) benefit cost, and net periodic benefit (income) expense.
3. Ensure that the plan committee compares any contemplated plan changes to the plan document to confirm that actions comply with terms of the document. Examples of actions to be reviewed include changes in investment options, creation of voluntary employees' beneficiary association (VEBA) trusts, plan mergers, and curtailments.
4. Inform appropriate personnel on a timely basis of changes in the terms of the plans and train them to apply the new provisions.
5. Ensure that responsible parties are aware of and familiar with disclosure requirements.
6. Communicate changes in disclosure requirements to the responsible parties in a timely manner.

B. Complete and accurate data are used in actuarial valuations.

Business risks

- Employee benefit plan accounting or disclosure will be inaccurate as a result of using incomplete and inaccurate data during actuarial valuation.

Control practices

1. Ensure that participant data used by the actuary in determining valuation report amounts is reconciled with the participants' subsidiary records.
2. Reconcile actuary information and assumptions with the terms of the plan document to ensure compliance.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT MANAGE AND ADMINISTER BENEFITS

C. Access to accounting records is properly authorized.

Business risks

- Unauthorized users will have access to accounting records.
- Financial statements will be inaccurate as a result of problems with the accounting records.

Control practices

1. Maintain segregation of duties between 1. Benefits record keeping; 2. Benefits record approval 3. Benefits payment preparation 4. Benefits processing; 5. Benefits distribution; 6. Other cash disbursements; 7. Benefits bank account reconciliations; 8. Benefits bank account reconciliations approval; 9. Employee benefits payment approval. 10. Personnel hiring and termination; 11. And general ledger functions.
2. Require formal authorization by those responsible for specific computer accounting records to allow access to those records.
3. Ensure that management reviews access rights periodically to verify proper authorization and appropriate segregation of duties.
4. Use specific access controls such as user IDs and passwords for each application.

Compliance with applicable laws and regulations

A. Employee benefit transactions and reporting are in compliance with government oversight rules.

Business risks

- The company will violate such government oversight rules as those issued by DOL and IRS covering ERISA.

Control practices

1. Ensure that the plan committee reviews contemplated plan transactions such as investment option changes, VEBA trust creation, plan mergers, and curtailments to ensure compliance with government regulations such as DOL and IRS oversight rules covering ERISA administration.