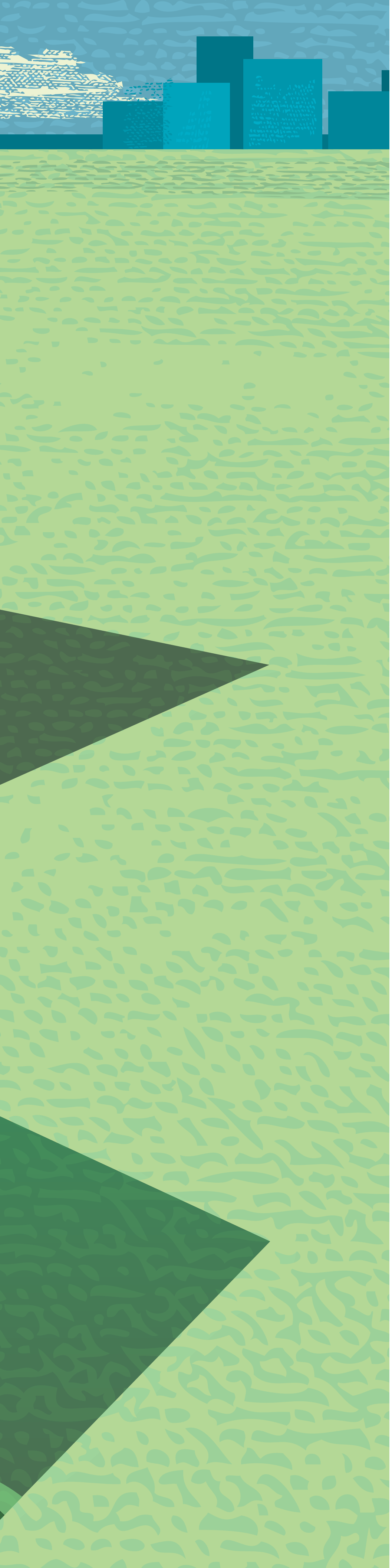
benefits
MAGAZINE



Avoiding Financial Holes in Plan Operations

A thorough review of operational procedures will help benefit plan managers eliminate unnecessary spending and have a more efficient plan, nipping problems in the bud.

by | **Joseph A. Reinhardt**

Controlling the cost of benefits without sacrificing plan quality is a constant challenge. Many employee benefit plan managers shop their plans, endeavoring to get equal or better services for less cost. But plan managers also can enhance the financial health of their plan and increase overall efficiency by improving their control over operational procedures and plan costs.

This effort involves taking steps against inefficiency, unnecessary spending, undetected cost overruns, making decisions without sufficient information and embezzlement. Plan trustees who initiate a thorough review of operational procedures will be able to detect and rectify small problems before they become big problems. This review should encompass:

- Participant files
- Third-party administrators
- Finance and internal controls
- Administrative expense allocations
- Payroll and personnel policies
- Purchasing policy
- Technology
- Plan management.

Participant Files

To help control benefit expenses, participant files must be as accurate as possible. Procedures should be in place to correctly capture data and then to review and maintain the data going forward. This process includes proper security of electronic files to lessen the possibility of data being changed without proper authorization and to ensure compliance with federal regulations such as the Health Insurance Portability and Accountability Act (HIPAA). Any discrepancies discovered by the outside independent auditor during the course of benefit testing should be reviewed and resolved in a timely way.

The Internal Revenue Service (IRS) and Department of Labor (DOL) both require that accurate, up-to-date files be kept. Employers with missing files can be required to investigate and reconstruct data, often at greater expense than would have been needed to maintain the files correctly in the first place.

Third-Party Administrators

Use of a third-party administrator (TPA) to manage the plan, handle a specific benefit or both requires regular monitoring by the plan administrator of the following:

- Administration fees must be reviewed to make sure they are in compliance with the agreement.
- TPA reports need to be compared with plan records and eligibility confirmed.
- Benefit processing should comply with the plan document and/or fee schedule.
- Bank accounts the TPA uses for benefit payments need to be reconciled on a timely basis and discrepancies promptly resolved.
- The annual Service Organization Control (SOC) 1 report on the TPA should be reviewed to ensure that TPA internal controls are sufficient.
- On-site operational reviews by plan administrators should take place at TPAs.

Finance and Internal Controls

Financial internal controls are important for three reasons:

1. To confirm that no one is skimming off plan assets
2. To reduce opportunities for human error
3. To provide confidence in the accuracy of the data.

Internal controls and procedures require periodic review to ensure they are being followed. They may require updating as the organization or its environment changes. For example, roles may change when funds merge, creating an overlap of duties or lapses in control that may go unnoticed. Computer conversions may also result in changing procedures, resulting in unanticipated weaknesses in internal controls. The plan's financial records should be updated monthly.

In addition, it is important to review the valuation techniques used to value plan investments. Moreover, it is vital that plan management understand the valuation. Accomplishing this may require the assistance of the plan's investment managers and accountants.

Regular reviews of investment statements help ensure that investment managers are following the plan investment guidelines and that investment income is being received properly. Additionally, investment expenses should be reviewed to assure they are being calculated correctly, pursuant to the investment management contracts. For other administrative expenses, administrative expense budgets and forecasts can isolate operational problems and identify when corrective steps are necessary.

Administrative Expense Allocations

Cost-allocation studies—done correctly and updated at regular intervals—can do much to protect a plan. Cost-allocation methodology should be well-documented in a formal cost-sharing agreement and reviewed by the trustees on an annual basis. That documentation can also prove very useful should DOL make an inquiry.

The cost-allocation study consists of two components: the payroll allocation and the space allocation. The accurate allocation of shared payroll expenses can be achieved by using an employee time-recording system. DOL will, in most cases, look to the underlying documentation supporting employees' duties in evaluating the accuracy of the payroll allocation study. If the plan has not implemented an electronic time-recording system, then time sheets should be completed by all plan employees for a period of at least eight weeks. Those time sheets should be used in preparing the payroll allocation study. Remember, as duties change or are reassigned, payroll allocation studies should be updated.

The allocation of space to specific employees is based on their payroll allocation. Common areas are allocated based on a variety of methodologies. For example, a conference room may be allocated based on usage, while a restroom used by all employees may be allocated based on the payroll allocation study. Once again, when changes to the space occur, the space allocation study should be updated. Administrative expenses that can be allocated to a specific plan generally are paid by that plan. Shared expenses that pertain to the space, such as maintenance supplies, generally are allocated using the space allocation. Shared expenses that pertain to the employees, such as the telephone expense, generally are allocated using the payroll allocations.

Payroll and Personnel Policies

Most likely, payroll is an organization's largest administrative cost. To control it, plan managers will want to make sure plan employees:

- Work in the most productive manner possible
- Are properly supervised
- Have regular personnel performance evaluations
- Take regular vacations, rotating duties to ensure coverage.

The system should include measures to make sure payroll funds are properly accounted for, to guard against excess vacation or sick days, and to document promotions and raises.

Developing and using a personnel practices manual is strongly recommended. Make sure it complies with applicable regulations and its policies are being rigorously followed. Also consider employers' insurance for protection against lawsuits for unfair labor practices, discriminatory behavior, or sexual harassment.

Purchasing Policy

Scrutinizing the cost of doing business will often bring measurable rewards. A vigilant purchasing department should always be on the lookout for ways to save. Here are some steps staff can take:

- Maintain an adequate number of vendors and alternatives to help ensure that individual vendors don't become complacent and the plan does not become beholden to any single vendor.
- Remain open to new offers.
- Constantly shop for value, reliability and the most competitive pricing.
- Make sure there is a procedure in place for identifying and taking advantage of vendors that offer discounts for prompt payment of invoices.

It is also critical to employ an appropriate system of checks and balances to limit opportunities for embezzlement. For example, the plan office should make sure the accounts payable and purchasing functions are segregated. A purchase order system should be in place, and vendor contracts should be reviewed on a periodic basis.

takeaways >>

- IRS and DOL require plans to have accurate participant data on file.
- Financial internal controls need to be reviewed and followed to guard against embezzlement and human error and help ensure the accuracy of data. Records should be updated monthly.
- Regular studies of how payroll and space are allocated can help protect a plan. Administrative expenses that can be allocated to a specific plan generally are paid by that plan.
- The cost of payroll, generally the largest administrative expense, can be better controlled by making sure employees are productive, properly supervised and evaluated regularly.
- A purchasing department should always be looking for ways to save.
- Sometimes it's wise to have an outside consultant assist with operational reviews, upgrades and finding opportunities to control costs.

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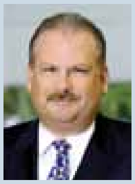

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Technology

Computer systems need to keep pace with an organization's growth. Does the current system produce accurate reports that aid in decision making? Are plan managers able to extract the data needed to fulfill reporting requirements of governmental agencies?

Someone within the organization should be responsible for monitoring new applications and software packages that can increase efficiency, improve flexibility and meet anticipated needs.

A qualified information technology (IT) professional should regularly review disaster planning, data recovery and security. The organization should be prepared for disaster by maintaining protected backup systems and securing an off-premises storage facility. Alternate resources for technical support must be able to take over during a breakdown or crisis. The plan's outside auditor should be asked for the results of its IT evaluation, which should have been performed in conjunction with its annual audit of the organization's financial statements.

Plan Management

Plans require regular, unbiased operational and management reviews to evaluate their performance. If "pride of authorship" prevents plan administrators from stepping back and taking a fresh look, an outside consultant should be hired to assist with operational reviews, upgrades and finding opportunities to control costs. Also, plan managers should keep in mind that health and welfare plans need to review operations periodically to ensure compliance with Health Insurance Portability and Affordability Act regulations.

Keeping a close eye on a plan's operations will have short- and long-term payoffs, allowing managers to run a more efficient, cost-effective operation. It will give them the information needed to avoid rash or unwise decisions in hard times and help circumvent unnecessary spending for operational or infrastructure revamps. By staying on guard and applying a little internal medicine, plan managers will have more resources available to devote to benefits, now and in the future.