



Internal Audit

Delinquent Employee Charge Accounts

May 15, 2014

Office of Internal Audit



Missouri State
U N I V E R S I T Y

DATE: May 15, 2014

TO: Steve Foucart, Chief Financial Officer
Dr. Denita Siscoe, Vice President of Student Affairs

FROM: Donna Christian, Director of Internal Audit and Compliance

CC: Clifton M Smart III, University President
Penni Groves, General Counsel

RE: INTERNAL AUDIT: DELINQUENT EMPLOYEE CHARGE ACCOUNTS

BACKGROUND

This review examines the amount of funds owed to the University through employee charge accounts that is both delinquent and excessive (over \$1,000), and the policies governing the charge accounts.

The University allows faculty and staff to defer charges to a University account utilizing their identification numbers (BearPass Cards). Employees utilizing this benefit sign a faculty/staff charge account terms and conditions agreement which provides for an annual percentage rate of 12.68 percent to be charged on balances due.

As part of our review, a query was performed by the office of Financial Services to obtain a listing of all employee charge account balances as of February 13, 2014. This listing was reviewed and analyzed by Internal Audit to arrive at the information presented in this report.

OBJECTIVE AND SCOPE

The objective of this review is to identify and report the amount of delinquent and excessive employee charge account balances and determine if adequate procedures are in place to collect unpaid amounts and review the related policies and procedures.

SUMMARY

Our review identified 85 employees owing delinquent charge account balances over \$1,000. These delinquent accounts total \$201,088. In many instances payments are not being made by these employees and most employees continue to charge, further increasing the amount owed. In some instances payroll deductions have been authorized by the employee in an effort to reduce the balance due; however, in a few of these instances the employee is charging more each month than the payroll deduction amount.

While some policies and procedures are in place to monitor and collect delinquent employee charge account balances, improvement is needed. It is recommended that management evaluate and strengthen current collection processes for delinquent employee account balances. It is further recommended that management make several changes to the terms and conditions, and various University policies pertaining to employee charge accounts.

In conclusion, we wish to thank the University's Chief Financial Officer and Vice President of Student Affairs, and employees from the office of Financial Services and Taylor Health Center for assisting in this review.

Sincerely,

A handwritten signature in cursive script that reads "Donna Christian". The signature is written in dark ink and is positioned above a horizontal line.

Donna K. Christian, CPA, CGFM,
Director of Internal Audit and Compliance
Audit Fieldwork Completed: March 27, 2014

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

This review examined employee charge account balances that were **both** delinquent and excessive in amount. (For the purpose of this review we determined that a total balance due to the University by an employee of over \$1,000 is excessive.)

On February 13, 2014, \$201,088 was owed to the University by 85 employees with delinquent charge account balances totaling over \$1,000 each. In total, \$528,465 was owed to the University by 1,300 employees. As a result, most employee charge accounts are in good standing and are not delinquent or excessive in amount. Additionally, of the \$528,465 total charge account balances, approximately \$150,000 represents:

- Recent Taylor Health Center charges awaiting health insurance reimbursement,
- Current tuition charges awaiting payment through student loan proceeds or by the employee through the University's standard tuition payment plan,
- Recent travel advances awaiting documentation of travel expenses or repayment.

These charges are included in the employees' charge account balances to provide better accountability over these funds, but represent charges that may be paid by an outside source (health insurance or student loan proceeds) rather than the employee or represent charges that will be removed once documentation of travel expenses is received. See explanation below regarding the benefit of employee charge accounts.

The following table is a break down of campus facilities where employee charges originate.

Original Charge Activity	Employee balance Over \$1,000 with Delinquent Charges	Total Employee Balances
Health Center	\$ 96,519	\$ 234,941
Finance Charges	40,856	57,078
Tuition related	24,404	60,611
Greenwood	11,955	15,480
Travel Advances	7,119	89,427
Parking fines/permits	5,943	19,816
Bookstore Charges	5,857	24,580
Physical Therapy/Speech Clinic	5,467	14,033
Other	2,968	12,499
Totals	\$ 201,088	\$ 528,465

While allowing employees to charge goods and services is recognized as an employee benefit, this process also benefits the University in several ways.

- The University provides health insurance to employees through a self-insured plan and provides health services through a University-owned health facility. To reduce health insurance costs incurred by the University, employees are encouraged to use health services provided by Taylor Health Center. The employee's account is charged for the full cost of the health services provided by Taylor Health Center, and then the insurance payment associated with the charge is paid to the University and applied to the employee's account balance, leaving only the employee's share, which in most instances is the 20 percent coinsurance.

- Travel advances provided to faculty/staff are charged to the charge account of the faculty/staff receiving the advance. Once the faculty/staff provides an accounting of the travel advance and if applicable, repays any unused cash balance to the University the amount is removed from the faculty/staff charge account. This procedure provides the University with increased controls and accountability over travel advances.
- Finally, by adding various charges to an employee charge account balance, employees are required to pay the amount owed to the Bursar or online thus reducing the amount of funds collected at various locations throughout campus.

Employee charge account balances are not written off by the University as long as the employee is still employed by the University. If the employee terminates employment, University policy provides for the employee's unused vacation payment to be applied to the unpaid charge account balance. If the vacation payout is not adequate to cover the entire balance, the employee's unpaid balance is turned over to an outside collection agency.

Our review identified some policy and procedural changes that should be considered to help collect amounts due from employees in a more timely basis, thereby reducing the potential of an employee owing a significant balance.

(1) CHARGE ACCOUNT TERMS AND CONDITIONS:

Management should consider making several changes to update and improve the terms and conditions associated with the faculty/staff charge accounts.

- The charge account terms and conditions indicate charges are due when billed but do not require an employee to make monthly payments in order to keep the account open. As a result, some employees do not make monthly payments, continue to accumulate charges and their account balance becomes excessive.
- The terms and conditions also allow for a collection charge of \$5 to be assessed on any balance that is past due for a period of not less than 10 days. This \$5 is not assessed and consideration should be given to either charging the late fee or removing this fee from the terms and conditions.
- The charge account terms and conditions do not specify a limit to the amount an employee can charge before the account is shut down.
- Consideration should be given to requiring all new employees who participate in the charge account program to sign a statement authorizing payroll withholdings for all delinquent account balances. This would reduce the amount of time spent on collection efforts by Financial Services and help to guarantee collection.

Recommendations:

Review faculty/staff charge account terms and conditions and consider adding a monthly payment requirement, adding a charge limit, and requiring new employees to sign a payroll withholding authorization. Additionally, the \$5 collection charge should be charged or eliminated if the fee is not going to be charged.

Management Response:

The existing hold process applies a hold on students' and employees' accounts if a payment is not made during the semester term and the balance exceeds \$200. A consistent issue over the years has been the potential liability of not providing health services to an employee who seeks care at the Taylor Health Center. A committee with representation from Financial Services, Taylor Health Center, Information Technology, and General Counsel has been formed to address this issue with the intent to provide due notice to delinquent accounts to either bring their account into good standing or seek alternative medical care elsewhere.

The intent is to review and provide due notice twice a year in May and November and to place holds on services for Taylor Health Center with outstanding balances over \$1,000 for employees. The existing \$200 hold limit for other services, mainly the Bookstore and convenience store will continue to function as it has in the past.

The existing policy of adding a \$5 charge in addition to the finance charge of 1% per month should be eliminated. The committee, in conjunction with Human Resources, will develop a payroll withholding authorization form in compliance with legal requirements.

(2) COLLECTION PROCEDURES:

Financial Services employees monitor the delinquent accounts and place a variety of holds on account balances to prevent future charges; however, holds are not consistently placed on employee account balances. For example, a hold to prevent future charges at the Taylor Health Center is placed on some large delinquent accounts, but not all. Additionally, holds are not placed on some employee accounts if monthly payments are being made or if the employee has agreed to a payroll withholding. However, in some instances the monthly payment is less than the added charges and the charge account balance continues to grow.

To further complicate the collection process, the holds placed on delinquent accounts are not always honored at Taylor Health Center for various reasons. First, the holds are not obvious on the computer screen of a patient's account at Taylor Health Center, and when these employees use the services at Taylor Health Center, they are not typically asked to make a payment on their account before services are provided. Second, there are legal issues that have not been addressed by Taylor Health Center management and the University regarding how to enforce this hold and whether medical services should be discontinued to an employee who is not paying for these services. As a result, some large delinquent account balances continue to grow. For example, one employee's charge account balance has grown to over \$9,000 with charges dating back to 2007 and no payments made by the employee. Over \$5,000 of these charges are associated with Taylor Health Center. Since Taylor Health Center charges represent the largest percentage of employee charges, implementing collection efforts at Taylor Health Center should be considered.

In summary, only 85 of the 1300 employees (6 percent) represent problematic delinquent employee charge accounts. These 85 employees owe \$201,088 which is 38 percent of the total amount owed. It appears some of these employees have over extended their credit based upon their ability to repay the debt. For example, one employee owes over \$5,600 and has an annual salary from the University of less than \$30,000. In other instances it appears the employee has the ability to repay the balance due, but has not. For example, an employee making over \$100,000 in salary owes approximately \$2,500 and has only made one payment of \$300 in the last year. Stronger collection procedures and the enforcement of holds may prevent examples such as these in the future.

Recommendation:

Financial Services should consider documenting collection procedures to ensure they are consistently applied to employee charge account balances and work with University's General Counsel on collection efforts for the 85 delinquent and excessive employee accounts. Additionally, Taylor Health Center should work with the University's General Counsel regarding the process of honoring holds placed on employees' account balances.

Management Response:

A consistent issue over the years has been the potential liability of not providing health services to an employee who seeks care at the Taylor Health Center. A committee with representation from Financial Services, Taylor Health Center, Information Technology, and General Counsel has been formed to address this issue with the intent to provide due notice to delinquent accounts to either bring their account into good standing or seek alternative medical care elsewhere. The intent is to review and provide due notice twice a year in May and November and to place holds on services for Taylor Health Center with outstanding balances over \$1,000 for employees. The existing \$200 hold limit for other services, mainly the Bookstore and convenience store will remain in effect.

(3) FINANCE CHARGES:

Interest is not charged on some employee accounts as required by the charge account terms and conditions. Interest is not charged on an employee account balance if any portion of the balance due includes charges associated with the Greenwood Laboratory School. For example, one employee whose account we reviewed, owes approximately \$4,300 with approximately \$3,400 representing charges for Greenwood and the remaining \$900 representing a variety of other charges (Taylor Health Center, a parking fine, and boomer meals). Since the

University is not allowed to charge interest on secondary education cost which represents the \$3,400 associated with Greenwood, the entire account balance has been removed from the interest calculation. As a result, this employee has been allowed to accumulate the \$900 in other charges interest free. These charges have accumulated for more than a year, dating back to January 2013. Interest free employee loans may represent a taxable event for the employee.

Recommendations:

When an employee account balance includes charges for Greenwood Laboratory School, procedures should be in place to charge interest to the remaining portion of the account balance.

Management Response:

Twice a year Financial Services will review outstanding employee balance with Greenwood charges to determine if there are other outstanding balances which finance charges should be applied and manually apply those charges.

(4) UNIVERSITY POLICIES:

Some University policies addressing employee charge accounts contain conflicting information.

- According to the Employee Handbook only full-time employees are allowed to utilize the employee charge account benefit; however, part-time employees are currently utilizing this benefit.
- The University's BearPass Card Policy indicates, "Students, faculty and staff in good standing and eligible under My Payment Plan, may defer charges to the university account utilizing the BearPass Card." However, the My Payment Plan guidelines only reference students and do not appear to apply to faculty or staff.

The Employee Handbook, the BearPass Card Policy, and the My Payment Plan guidelines should be reviewed to ensure all references to faculty/staff charge accounts are consistent and properly followed.

Recommendation:

Management should perform a review of the various University policies addressing the faculty/staff charge accounts to ensure all references to the charge accounts are consistent and to ensure all policies are properly followed.

Management Response:

The committee will consult with General Counsel on any proposed policy changes.