



Franklin Central School District Health Insurance Cost Savings

Report of Examination

Period Covered:

January 1, 2013 – December 31, 2015

2016M-50



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Franklin Central School District, entitled Health Insurance Cost Savings. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Franklin Central School District (District) is located in six towns in Delaware and Otsego Counties. The District is governed by the Board of Education (Board), composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The District employs a Treasurer who is responsible for maintaining health insurance and health insurance buyout incentive records.

The District operates one school with approximately 260 students and 70 employees. The District's budgeted general fund appropriations for the 2015-16 fiscal year totaled \$6.7 million, funded primarily with State aid and real property taxes.

Beginning in January 2013, District officials changed health insurance carriers to achieve cost savings. As of July 2015, the District provided health insurance coverage to 64 employees and retirees, with monthly premiums ranging from \$531 to \$1,483 for the three different plans¹ offered. The employees' collective bargaining agreements require the District to pay 90 percent of the health insurance premiums. The District's health insurance expenditures averaged \$705,000² a year over the last three years.

Objective

The objective of our audit was to determine whether District officials implemented measures to achieve cost savings and address rising health insurance costs by offering employees a buyout incentive. Our audit addressed the following related question:

- Did District officials achieve health insurance cost savings?

Scope and Methodology

We examined financial records and reports, interviewed District officials and reviewed health insurance coverages and rates under the District's current and former health insurance carriers for the period January 1, 2013 through December 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

¹ These plans include single, two person and family coverage.

² This includes premiums for employees and retirees as well as buyout incentives paid during the scope period.

standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials**

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our report.

Health Insurance Cost Savings

School districts have a responsibility to provide necessary services, including contractual employee benefits such as health insurance, in a cost-effective manner to ensure tax dollars are spent in a prudent and economical manner. To meet that responsibility, the Board should annually evaluate health insurance costs and determine whether the same or a better level of coverage can be obtained at a lower cost. The employees' collective bargaining agreements generally determine the amounts that the District and employees contribute to the cost of health insurance. Therefore, it is important that the Board look for ways to control these costs. Additionally, the District may offer employees who have other appropriate coverage an annual payment in lieu of health insurance coverage (known as a buyout incentive). This type of incentive is advantageous to both the District and its employees because the District realizes savings by paying an employee an amount less than the cost of health insurance premiums. At the same time, the employee increases his or her income.

District officials achieved health insurance cost savings by changing health insurance carriers and offering employees a buyout incentive. During the scope period, the health insurance and buyout incentive cost savings totaled \$826,000. We commend District officials for implementing these cost-saving measures.

District officials assessed the benefits and costs associated with their health insurance coverage and pursued alternate coverage at a lower cost. District officials changed health insurance carriers effective January 2013 and were able to offer two additional plans to employees. We compared the coverage offered to employees and the former health insurance carrier's rates to the current carrier's. We found the District saved a total of \$543,000 from January 1, 2013 through December 31, 2015 while providing equivalent or better coverage.

Furthermore, the District offered 25 employees an annual health insurance buyout incentive³ during the scope period that cost the District \$38,000. If the District had not offered the buyout incentive, it would have paid a total of \$321,000 in health insurance premiums for these individuals. Therefore, the District achieved savings totaling \$283,000.

³ The annual buyout ranged from \$720 to \$2,000 depending on the type of coverage.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Gordon Daniels
Superintendent

Julie Bergman
Principal



Board of Education
Jamie Archibald
Joan Cronauer
Stanley Swears
Patricia Taggart
Thomas Worden

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901

March 22, 2016

Dear Mr. Eames,

On behalf of the Franklin Central School District, I would like to thank you for the valuable feedback you provided on our health insurance program. Our District continually strives to manage operations in the most efficient and cost effective manner possible. The savings achieved from the changes in our health insurance program have allowed the District to maintain educational programming in tight fiscal times.

Sincerely,

Gordon Daniels
Superintendent

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether District officials implemented measures to achieve cost savings and address rising health insurance costs by offering employees a buyout incentive for the period January 1, 2013 through December 31, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials regarding the health insurance benefits, costs and coverage provided to District employees.
- We reviewed collective bargaining agreements and information from the health insurance carrier regarding the benefits, costs and coverage provided to District employees.
- We reviewed and compared the District's health insurance coverage under the former and current health insurance carrier to determine whether District employees received equivalent or better coverage.
- We obtained the plans and premiums from the District's former health insurance carrier and projected the District's health insurance cost if this carrier still provided health insurance to District employees during the scope period.
- We obtained a listing of 25 employees who received the health insurance buyout incentive and verified that these employees were paid the correct buyout amount per the collective bargaining agreements during the scope period. We also verified these employees were not receiving health insurance coverage.
- We calculated the District's cost savings for the buyout incentive by comparing the total buyout payments made to the 25 employees participating in the buyout to the health insurance cost for these employees if the District had to pay for full coverage.
- We calculated the District's health insurance cost savings by comparing the health insurance cost under the former and current carriers using the premiums and plans offered each year. We judgmentally selected the enrollment during the months of January 2013, June 2014, June 2015 and December 2015 to project the cost savings.
- We judgmentally selected 10 of the 53 enrollees from the health insurance bill for January 2013 and reviewed the bi-weekly payroll for these 10 employees for three months (totaling six payrolls) to determine whether District employees contributed the correct percentage toward their health insurance costs in accordance with their collective bargaining agreement.
- We reviewed the health insurance cost from the general ledger for the period January 1, 2013 through December 31, 2015 to calculate the District's health insurance cost during the scope period.

We conducted this performance audit in accordance with GAGAS. 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 our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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