OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

South Kortright Central School District

Retiree Health Insurance Contributions

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-148

Thomas P. DiNapoli

Table of Contents

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 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 South Kortright Central School District, entitled Retiree Health Insurance Contributions. 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 and recommendations 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 South Kortright Central School District (District) is located in the Towns of Bovina, Delhi, Harpersfield, Kortright, Meredith and Stamford in Delaware County. The District is governed by the Board of Education (Board), which is 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 (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with 395 students and 100 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately $9 million, which were funded primarily with State aid, real property taxes and grants.

The District provides postemployment health insurance coverage to retired employees in accordance with the provisions of various employment contracts that determine the percentage retirees and their spouses contribute to the premiums. The retirees' share of the health insurance premiums ranged from 0 percent to 50 percent, based on various collective bargaining agreements and employment contracts. Retirees' monthly payments ranged between $40 and $438.[1] For the fiscal year ended June 30, 2015, the District collected $84,396 for its share of insurance premiums totaling $447,493. The District currently has 59 enrolled retirees and 18 spouses.

Objective

The objective of our audit was to determine the adequacy of District controls over the collection of retiree health insurance contributions. Our audit addressed the following related question:

- Did District officials ensure that retiree health insurance contributions were properly billed, collected and deposited?

Scope and Methodology

We examined the District's retiree health insurance procedures for the period July 1, 2014 through February 29, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in

[1] Other than a former Superintendent whose contract requires the District to cover 100 percent of his premiums

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 and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Retiree Health Insurance Contributions

District officials should design procedures to ensure that retiree contributions are accurately billed, collected and deposited into District bank accounts. These procedures should include ensuring that duties performed are segregated or, when it is not possible to segregate duties, implementing compensating controls. Procedures should also include steps to identify deceased retirees in a timely manner so that coverage can be canceled or any dependents covered by the policy can be contacted to discuss any additional costs to continue the insurance coverage, in accordance with contracts.

District officials have established some adequate procedures to ensure retiree health insurance contributions are accurately billed, collected and deposited into District bank accounts. The District also has controls in place to ensure that it is not paying insurance costs for deceased retirees. For example, throughout the year, the insurance company monitors the list of retirees and spouses for any recent deaths through notifications from the Center for Medicaid Services/Medicare. The Business Manager also uses local resources and the Internet to monitor recent deaths. However, weaknesses exist in the District's processes for billing and collecting contributions.

The annual billing cycle begins when the Business Manager calculates the amounts to bill retirees each June, based on the known and estimated premiums and the agreed upon contractual percentages.[2] The Business Manager needs to estimate premiums because, when the District changed health insurance plans recently to save costs,[3] the billing cycle for the separate supplemental plan covering retirees on Medicare changed and is different from the school's fiscal year. For those retirees covered by the supplemental plan, the bills are based on an estimate[4] of the change in the premium that occurs each following January.

During the audit period, the Business Manager used a higher cost estimate than was incurred for the premiums because the actual increase in the premiums was less than he expected based on the information he had when he calculated the bills. The amounts overbilled were not material, and the Business Manager told us that he intended to adjust the next year's bill by the amount overbilled in the current year. He also said that he would refund those retirees who were overbilled in the

[2] Employee percentages are covered under the most recent contracts, while spouses and dependents are covered under the contract that was in effect when the related employee retired.

[3] For the 2014-15 year, the District changed from one plan covering all employees and retirees to two new plans, including a separate plan for retirees on Medicare.

[4] Estimates will be needed each year because the District bills retirees on its fiscal year and this plan operates on a calendar year.

current year but no longer on the District's plan the next year. However, the Business Manager told us he has not prepared a reconciliation of the estimated premiums to the actual amounts so that the estimated billings can be adjusted.

Retirees have the option of paying annually, biannually or monthly. The Business Manager gives this information to the account clerk, who prepares and mails the billing letters. The clerk also collects the retiree contributions and prepares a hand-written receipt.[5] In addition, she keeps track of the checks received by logging the check number according to the frequency received. Therefore, she can determine whether a retiree is up-to-date with their payments. The Business Manager accumulates the receipts and money for deposit and completes a Treasurer's receipt that agrees with the deposit ticket total.

However, no one compares the collections with what was actually deposited. In addition, no one compares the billing letters to the amounts calculated by the Business Manager. These weaknesses occurred because District officials did not segregate duties or implement compensating controls. District officials told us that there are no individuals with the required expertise and time available to review and otherwise provide oversight of the process.

Because of these weaknesses, we compared health insurance invoices and the contractual terms to determine whether the billing letters sent to retirees and spouses were accurate. While we determined that the billing letters were accurately calculated based on contractual terms, those individuals with the supplemental coverage were charged small amounts in excess of their actual premiums,[6] which we communicated to District officials.

Further, we compared the listing of 77 retirees and spouses (as of January 2016) covered by the District's insurance to the Death Master File, which is maintained by the Social Security Administration, to ensure that, if a retiree was reported as deceased, contractual terms were adjusted appropriately. We also tested 39 contribution payments from retirees totaling $19,900 to determine whether they were collected and deposited into District bank accounts. Finally, we verified that all 79[7] individuals receiving benefits were billed the proper contributions, and we tested a judgmental sample of 24 individuals[8] to determine whether

[5] Receipts are prepared in triplicate: one copy stays in the receipt book, one copy is kept on file and the third is given to the Business Manager.

[6] The Business Manager told us estimates were not needed before changing plans, and retiree billings were previously based on the actual premiums.

[7] Represents the number of unique retirees and spouses receiving health insurance in 2014-15 and 2015-16

[8] See Appendix B, Audit Methodology and Standards, for details on our sample selection.

they were eligible for those benefits. While we found that generally bills were computed, billed and deposited correctly, procedures could be improved by addressing the weaknesses in the process noted above.

Recommendations

District officials should:

1. Segregate duties or implement compensating controls such as having someone independent of the billing and collection process verify that the proper amounts are billed.

2. Have someone independent of the collection and deposit process compare what was collected to what was deposited.

3. Design a reconciliation process to accurately adjust the initial retiree billings based on the estimated bills for the actual premium amounts charged.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

"Learning for Life"

Patricia Norton-White
SUPERINTENDENT

Nathan I. Kanarek
BUSINESS MANAGER

Krislynn Dengler
PRINCIPAL

PHONE:
607-538-9111

FAX:
607-538-9205

SOUTH KORTRIGHT CENTRAL SCHOOL

58200 STATE HWY. 10, P.O. BOX 113 • SOUTH KORTRIGHT, NEW YORK 13842

June 6, 2016

Office of the State Comptroller
Attn: H Todd Eames, Chief Examiner
Binghamton Regional Office
44 Hawley Street-3rd Floor
Binghamton, NY 13901-4417

Dear Mr. Eames;

Please accept this letter as response to the Office of the State Comptroller's report on the South Kortright Central School District, entitled *Retiree Health Insurance Contributions*. As Superintendent of the South Kortright Central School District, I am drafting this response on behalf of the President of the Board of Education, Mr. Paul Deysenroth IV.

Retiree Health Insurance Contributions

Recommendations:

1. *Segregate duties or implement compensating controls such as having someone independent of the billing and collection process verify the proper amounts are billed.*

2. *Have someone independent of the collection and deposit process compare what was collected to what was deposited.*

Response:

The District acknowledges that there is always room for improvement in any procedure and appreciates these recommendations to tighten internal controls. With this being said, the issue for our school district, as well as most small schools, is the lack of staffing to accomplish all the tasks required. Municipalities must constantly assess risk as part of an ongoing process in order to safeguard District assets. Part of this assessment involves the decision as to whether or not to use

our limited resources, and to what extent, to mitigate risks. The areas noted in these two items were not identified as an area of high priority that needed to be addressed. Thankfully, the extensive audit that was performed by your office independently verifies our beliefs. We will continue to monitor *all* areas of exposure to loss and adjust our resources accordingly.

Recommendation:

3. *Design a reconciliation process to accurately adjust the initial retiree billings based on the Estimated bills for the actual premium amounts charged.*

Response:

The District acknowledges, and agrees with, the need for this recommendation. The calculations for billing had changed recently after many years of having **actual** premium amounts to work with. Now the staff must make assumptions on what **future** premiums will be in six months, when the new provider changes these amounts, in order to notify the retiree of their share of health insurance. Every intention was there to address this reconciliation in a more timely fashion but was forced to be delayed due to unforeseen health issues that afflicted the already minimal staff. This recommendation will be implemented in the near future.

The District would like to thank the Office of the State Comptroller for conducting an examination of the *Retiree Health Insurance Contributions* and identifying potential areas of concern.

Sincerely,

Patricia Norton-White
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of how retiree health insurance contributions are billed, collected and deposited into District bank accounts.

- We verified that all 79 individuals receiving benefits were billed for their respective contributions.

- We judgmentally selected 18 retirees and six spouses out of a population of 79 individuals to determine if they were eligible for the benefits they received in 2014-15 or 2015-16. We reviewed personnel files and employment contracts to determine if they met the contractual requirements to receive the benefits.

- We compared all 77 retirees and spouses receiving health insurance in January 2016 with the Social Security Death Master File to determine if any were deceased.

- We tested a sample of 17 retirees and spouses − selected judgmentally based on their contractual terms, the type of plan they were on and the amounts the District was billed for the premiums − to determine if contract terms were applied correctly and the proper amounts were billed to retirees for their contribution toward the health insurance premiums.

- We tested a sample of 39 cash receipts − selected judgmentally from the sample of retirees tested for billing based on the pattern of receipts, the number of receipts each individual remitted and the type of plan enrolled in out of a total population of 411 checks received − to determine if they were properly collected and deposited. We also tested six bank reconciliations that covered the periods these cash receipts were deposited to determine if the receipts were properly reconciled.

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.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
http://www.osc.state.ny.us/localgov/

APPENDIX D

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE
H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE
Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE
Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE
Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE
Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange, Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE
Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE
Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS
Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313