



Union Springs Central School District Retiree Health Insurance Contributions

Report of Examination

Period Covered:

July 1, 2014 – January 5, 2016

2016M-75



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
RETIREE HEALTH INSURANCE CONTRIBUTIONS	4
Recommendation	5
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Union Springs 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 Union Springs Central School District (District) is located in five Towns¹ and two Villages² in Cayuga County. The District is governed by the Board of Education (Board), which is composed of nine 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 operates three school buildings with 817 students and 170 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$17.8 million, which are funded primarily with State aid and real property taxes. Currently, the District has 117 retirees that are covered under its sponsored health insurance plan at a cost to the District of more than \$861,000 with almost \$308,000 being reimbursed by the retirees.

Objective

The objective of our audit was to assess the controls over 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 various documentation regarding retiree health insurance contributions including the percentage of premium retirees are required to pay, the billings to retirees and the collection and deposit of the retiree contributions. Our audit period was from July 1, 2014 through January 5, 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 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.

¹ Springport, Aurelius, Fleming, Scipio and Ledyard

² Union Springs and Cayuga

**Comments of
District Officials and
Corrective Action**

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 generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

Retiree health insurance benefits represent a significant cost to school districts. Districts can offset this cost by requiring retirees to contribute to their health insurance premiums. Officials should design procedures to ensure that retiree contributions are accurately billed, collected and deposited into District bank accounts. These procedures should include either 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 either coverage can be canceled and 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 ensured that retiree health insurance contributions were properly billed, collected and deposited. Although the account clerk performs most of the duties, District officials implemented proper compensating controls to ensure bills are accurate, money is collected from all retirees and money is deposited into District bank accounts. However, although officials have a process in place to identify deceased retirees, they could increase controls to ensure they are identified in a timely manner.

The account clerk maintains a list of all retirees that are covered by the District's insurance, the type of insurance (i.e., single/family coverage), and the percentage of premium and contribution amount for which the retiree is responsible to pay. The percentage of the premium a retiree is responsible for is based on the employment contract that they retired under. Each year the account clerk updates the list with new premium amounts and prepares the retiree bills using the updated premium amounts. The Treasurer and the Superintendent's secretary review the retiree bills prior to being sent. As part of this review, they compare the premium amounts on the list to the health insurance bills to ensure that the correct rate is applied.

Throughout the year, the account clerk reviews the obituaries and if a retiree is identified as deceased, the secretary contacts any dependents that were included in the coverage to notify them of any additional costs to continue the insurance coverage, in accordance with the specific contract. In addition, receipt of payment from the retirees acts a control since the retirees³ covered by the District's health insurance must contribute to their premium costs. However, if the spouse of a deceased retiree continues to make payments and does not inform the District of

³ There is only one retiree who does not have to contribute to her health insurance costs.

the change, the District will pay more than it should for the insurance coverage.

The account clerk is responsible for collecting all retiree contribution payments, filling out a press-numbered triplicate receipt⁴ and preparing the deposit for the courier to take to the bank. The account clerk then records each payment into a manual ledger, which she maintains in order to ensure that all retirees are making their payments. She then gives the Treasurer a duplicate deposit slip with one copy of the associated press-numbered receipts. The Treasurer records the transactions into the computerized financial system and prepares the monthly bank reconciliation. The Assistant Superintendent of Business reviews and approves the bank reconciliations. Finally, at least twice a year, the Treasurer and the account clerk compare the computerized ledgers to the manual ledgers to ensure they reflect the same activity.

We performed various tests to determine if the controls were working as designed. We reviewed copies of the bills sent to retirees and verified that those bills were properly calculated based on the employment contracts and the health insurance bills.⁵ We also verified that 17 payments totaling more than \$15,000 were deposited into District owned bank accounts and properly recorded in both the manual and computerized ledgers. We also reviewed all retirees' accounts per the manual ledgers and found that all the retirees were paid in full for the 2014-15 school year. Lastly we compared a list of all retirees 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, the continued coverage was applied appropriately. We found no issues.

We commend District officials for designing and implementing controls that properly safeguard the billing, collection and depositing of retiree health insurance contributions. We encourage District officials to enhance controls over identifying deceased retirees.

Recommendation

District officials should:

1. Enhance procedures to monitor the status of all retirees and their spouses/dependents receiving health insurance coverage. Such procedures could include:

⁴ Original copy goes to retiree, first duplicate is attached to deposit slip which is given to Treasurer and last copy is maintained in the press-numbered receipt book.

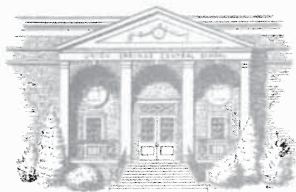
⁵ See Appendix B for more details.

- Regularly contacting all retirees by phone or mail to obtain updates of their contact and eligibility information and
- Comparing enrollees' Social Security numbers against the Social Security Administration database.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



UNION SPRINGS CENTRAL SCHOOL DISTRICT

239 Cayuga St., Union Springs, NY 13160

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Superintendent of Schools

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May 9, 2016

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Mr. Eames:

This letter is in response to the examination of internal controls associated with health insurance for our district retirees which was reviewed with the district on April 22, 2016. Our district appreciates the work and efforts your staff put into this appraisal of our practices and the thoughtfulness of your recommendations regarding how we can become more efficient in our business operations regarding retiree healthcare. Your office's review of strategies to reduce costs and to strengthen controls intended to safeguard district assets, will help us continue to work to ensure that our practices provide for regular maintenance of our retiree roster.

Recommendations for improvement have been offered and the District's response is outlined as follows:

1. Enhance procedures to monitor the status of all retirees and their spouses/dependents receiving health insurance coverage. Such procedures could include:
 - regularly contacting all retirees by phone or mail to obtain updates of their contact and eligibility information
 - comparing enrollees' social security numbers against the Social Security Administration Database.

Union Springs School District Response

This recommendation was reviewed by our business office staff and an annual canvas of all retirees with family coverage will occur. This canvas will require a response related to current eligibility for district health insurance coverage.

On behalf of the Union Springs Central School District, I'd like to express my gratitude for the professionalism of your staff who diligently answered all of our questions, and for working with us to ensure that our practices and operations help us continue to be prudent stewards of the district's resources.

Sincerely,

Jarett Powers
Superintendent of Schools

We are an equal opportunity employer and are in compliance with provisions of Title IX.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We conducted interviews with District officials to gain an understanding of the design of the controls over retiree health insurance contributions.
- We obtained billings from the District's insurance company for April and July of 2015, and compared retirees' names listed on the insurance bill to the list maintained by the District to determine if monthly premium rates charged to retirees agreed with premium rates charged by the insurance company and if all retirees included on the bills were included on the list.
- We traced contribution percentages charged to 12 retirees per the manual spreadsheet to employment contracts they retired under to determine if the percentages being charged were in agreement with employment contracts. We randomly selected one employee from each of the six percentages being charged to retirees for fiscal years 2014-15 and 2015-16.
- We obtained copies of all billing letters sent to retirees and compared amounts billed to the list to determine if all retirees were billed.
- We obtained the list of retirees receiving health insurance and randomly selected 17 retirees. We re-calculated the billed amounts per the list to determine if they were calculated correctly.
- For the same sample of 17 as noted above, we also traced one payment for each retiree to press-numbered receipts, deposit slips and bank statements to determine if they were deposited. We also traced the payment to the manual and computerized ledgers to determine if payments were properly recorded.
- We reviewed all retiree manual ledgers to ensure that collections of contributions were being enforced.
- We compared a list of names, Social Security numbers and dates of birth of all retirees covered by the District's health insurance to the Social Security Administration's Death Master File to determine if any were reported as deceased.

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

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