

Roxbury Central School District

Health Insurance Buyouts

AUGUST 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Roxbury Central School District

Audit Objective

Determine whether District payments for health insurance buyouts were cost-effective, supported by collective bargaining agreements and correctly calculated.

Key Findings

- Health insurance buyouts may have saved taxpayers approximately \$100,066 during our audit period.
- Three employees received \$34,738 in health insurance buyouts that they may not have been entitled to during our audit period.
- The health insurance buyout calculations are not reviewed before payment.

Key Recommendations

- Consult with District legal counsel about the intent of the health insurance buyouts outlined in the CBAs and determine whether changes should be made to the buyout calculations.
- Review and approve the health insurance buyout calculations before payment.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Roxbury Central School District (District) serves the Towns of Roxbury, Middletown and Gilboa in Delaware and Schoharie 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 financial and educational affairs. The Superintendent of Schools is the chief executive officer responsible, along with other administrative staff, for day-to-day management under the Board's direction.

The District Treasurer (Treasurer) is responsible for determining employees' health insurance buyout eligibility and calculating the buyout amounts each year, based on language in the employment contracts.

Quick Facts

Employees	80
2018-19 Budgeted Health Insurance Expenditures	\$10.1 million
Employees Paid a Health Insurance Buyout in 2018-19	12

Audit Period

July 1, 2017 – December 14, 2018

Health Insurance Buyouts

What Is a Health Insurance Buyout?

School districts have a responsibility to provide contractual employee benefits such as health insurance in a cost-effective manner. Collective bargaining agreements (CBA) or employment contracts that address such benefits may generally determine the amounts that a district and employees contribute to the cost of health insurance.

As part of the contract negotiation process, a district may offer employees an annual payment in lieu of health insurance coverage, referred to as a buyout incentive, to its employees who have appropriate coverage available from another source and who choose to receive the payment in return for not being covered by the district's health insurance. Buyout incentives may reduce a district's costs if the payments provided in lieu of coverage are less than the district would spend on health insurance for these employees.

Buyout payment calculations should be made in accordance with the terms of the contracts, and the board should ensure that the amounts paid are correctly calculated by having an official or employee independent of the buyout process review the information supporting the buyout calculations before payments are made.

The District has two separate CBAs that cover certain employees, both of which state that employees wishing to participate in the buyout program must elect to have no health insurance through the District and sign a waiver absolving the District from liability for uninsured medical costs. According to language set forth in each of the CBAs, the District will share the savings on that portion of the insurance premium, which the District would otherwise have been obligated to pay, at 45 percent of the premium.

The CBAs state that the District will reimburse an employee opting to participate in the buyout at 45 percent of the District's share of the cost of health insurance premium, with payments made to employees in December and June each year, subject to proof of alternative health insurance coverage.

The Health Insurance Buyout May Have Achieved Savings

The Treasurer appropriately paid health insurance buyout payments to seven eligible employees in 2017-18 and nine eligible employees in 2018-19 totaling \$82,188, as of December 14, 2018. The average annual buyout payable to each participating employee during these two years was \$7,793.

If the District did not offer the health insurance buyout option, it could have been liable for a portion of the participating employees' health insurance had they chosen coverage from the District at an estimated cost of \$182,254 during our

audit period.¹ The health insurance buyout may have saved the District as much as \$100,066 during our audit period.

Other than minor payment calculation errors for two of these employees, which we discussed with District officials and that the Treasurer plans to correct in the second buyout payment for 2018-19 (scheduled to be paid in June 2019), we found that all these payments were correctly calculated.

Certain Buyout Payments Appear Inconsistent with CBA Language

We believe that the District's two CBAs clearly state that employees wishing to participate in the buyout program must elect to have no health insurance through the District. However, we found that three employees received a health insurance buyout in 2017-18 and 2018-19 even though they were covered by the District's health insurance through a spouse or parent employed by the District.

As a result, District officials paid these employees approximately \$34,738 in health insurance buyouts during our audit period that appear inconsistent with the language contained in both CBAs. Officials told us that they made these payments based on their interpretation of CBA language and they plan to contact the District's legal counsel for an opinion regarding the health insurance buyout language contained in both CBAs.

Controls Over Health Insurance Buyout Payments Could Be Improved

The calculation of health insurance buyouts is based on the employee's eligibility for health insurance through the District, either at the individual plan or the family plan rate. We determined whether the buyout paid to each eligible participating employee was accurately calculated, based on the coverage listed (single or family plan) on their proof of alternative health insurance form.

With the exception of the minor payment calculation errors for two employees and the payments made to the three employees previously discussed, health insurance buyout payments were accurately calculated and supported by CBAs. However, the Treasurer's buyout calculations were not reviewed by District officials.

In addition, officials did not obtain waivers absolving the District from liability for uninsured medical costs from any employees who received the health insurance buyout. Officials told us that they were unaware of the requirement to obtain waivers from participating employees and did not have any documents in place for employees to sign. After we brought this to officials' attention, they modified

¹ Based on the health insurance premiums paid during our audit period and the level of each eligible participating employee's proof of alternative health insurance coverage (i.e., individual plan vs. family plan).

the language in the health insurance buyout request form to include the waiver requirements.

When an employee independent of the health insurance buyout process does not review the information supporting the calculations before payments are made, the District could inaccurately pay buyouts to employees.

What Do We Recommend?

The Board should:

1. Consult with the District's legal counsel regarding the intent of the health insurance buyouts outlined in the CBAs and determine whether changes, if appropriate, should be made to the buyout calculations.
2. Require an official or employee not involved in the buyout process to review and approve the buyout calculations, and any other documentation necessary to support the calculations, before payment.

Appendix A: Response From District Officials

ADMINISTRATION

THOMAS J. O'BRIEN
Superintendent

C. JILL TEN SYCK
Principal

WENDY SPRAGUE
Treasurer

BOARD OF EDUCATION

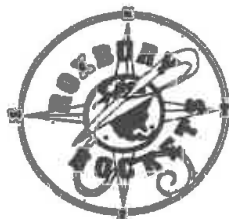
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Roxbury Central School

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July 23, 2019

Ann C. Singer
Chief Examiner
State Office Building, Suite 1702
44 Hawley St.
Binghamton, NY 13901-4417

Dear Ms. Singer:

Please accept this as the district's formal response and its plan to correct the recommendations as outlined in the audit you conducted regarding the health insurance buy-out option for our employees who elect to not take the district's coverage, during your audit period from July 1, 2017-December 14, 2018.

It is important to the district that we formally memorialize that it has been our intent to utilize this buy-out option to save taxpayer dollars. You have clearly documented a savings of \$100,066 during the audit period.

It is also important to the district to make it clear that you analyzed many aspects of our district's management systems and this was the only area that you could find that needed some refinement. The following is a list of comments concerning the body of your draft audit report. At our exit interview we requested modifications to some of the language in the report which you did not make.

1. In your report you stated, "Buyout incentives may reduce a district's cost if the payments provided in lieu of coverages are less than the district would spend on health insurance for these employees." The buy-out incentive did and does save taxpayer dollars at a measurable level (\$100,066 during the audit period.)
2. The practices of the spousal buy-out and parent/child employment buy-out are the realities of employment of individuals in a rural area.
 - a) Spousal Buy-Out – This is a practice that has preceded my 17 years in the district. There is nothing in the CASEBP Health Plan that precludes those awarded the opportunity to seek individual coverage on top of family coverage which would cost the district more than the buy-out.
 - b) A parent employee on the family plan with a child employee taking the buy-out – It is the district's feeling that this audit missed two key opportunities to point out a

See
Note 1
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See
Note 2
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See
Note 3
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"Our vision is to provide a safe and caring environment in which our students can develop academically, creatively and socially. Each member of our school community will demonstrate personal integrity, a commitment to learning and an appreciation for cultural diversity."

significant benefit of this buy-out option and how it interacts with the Affordable Care Act (ACA).

Under the ACA's under 26-year-old coverage rule, individuals under the age of 26 can remain on their parents' coverage. This aspect of the ACA has saved the district thousands of dollars as we have replaced senior retiring employees with young employees under the age of 26. This aspect of the ACA also has given this rural district the opportunity to be more competitive with higher paying districts in other regions of New York State by offering this buy-out. Our State has staunchly defended the ACA and we feel your office missed an opportunity to gather key findings on the value of this important law to school districts and other local government agencies.

District's Corrective Response to the Key Recommendations:

1. The district has already consulted our legal counsel regarding the buy-out; our ONC BOCES Labor Relations specialist is also aware. The collective bargaining agreements are in place and the district is not interested in opening the contracts to discuss this issue as it would potentially open up other portions of the "Collective Bargaining Agreements" which is an ill-advised labor negotiations strategy.

Let this audit document stand on its own to memorialize the need for this issue to be deeply analyzed to maintain its savings power while complying with your recommendations and insight. The spousal/child buy-out options should be an item for discussion during future negotiation and a copy of this report will be provided to both bargaining units upon its official publication.

2. As stated in your report there were some minor calculation errors totaling \$491. Per your recommendation, the ONC BOCES CBO will check all buy-outs from this point forward to put a second set of eyes on those future calculations.

We value the oversight and guidance that your office has supplied to us as a result of the Audit Examination. We always appreciate ways to improve the operation of our school district.

Sincerely,

Thomas J. O'Brien
Superintendent

Appendix B: OSC Comments on the District's Response

Note 1

Our audit objective was to determine whether payments for health insurance buyouts were cost-effective, supported by collective bargaining agreements and correctly calculated from July 1, 2017 through December 14, 2018. Therefore, it would be imprudent for us to comment on whether other areas were in need of refinement.

Note 2

We calculated the maximum potential savings the District may have been able to achieve during our audit period for the health insurance buyout. We based our calculation on the assumption that all eligible employees who opted to receive the buyout would have chosen to receive health insurance benefits through the District had a buyout incentive not been offered. District officials did not provide us with any evidence that these employees would have elected to receive health insurance benefits through the District had the buyout not been offered. Absent a District buyout incentive, if any of these employees elected to receive alternative health insurance coverage, the calculated savings would be less.

Note 3

Our audit report did not criticize the cost savings potential of offering spousal buyouts or parent/child employment buyouts. We identified three employees who received a health insurance buyout even though they were covered by the District's health insurance through a spouse or parent employed by the District. This is inconsistent with the CBAs' requirements that employees wishing to participate in the buyout program must elect to have no health insurance through the District.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We gained an understanding of the District's health insurance buyout program by interviewing District officials to determine what roles they had in the approval of the buyout and reviewed the District's policies and CBAs as they relate to the buyout program.
- We reviewed health insurance buyout payments for all eligible employees who participated in the health insurance buyout program (seven in 2017-18 and nine in 2018-19) to determine whether the buyouts were cost-effective by comparing the buyout payments made to these employees during our audit period to the amount the District may have been required to pay for health insurance coverage if these employees instead opted for health insurance coverage through the District, based on the health insurance premiums paid during our audit period and the level of each eligible participating employee's proof of alternative health insurance coverage (i.e., individual plan vs. family plan).
- We compared all buyout payments made during the audit period to District policies and CBAs to determine whether the payments were appropriate, supported by CBAs and correctly calculated in accordance with contractual provisions including eligibility for insurance coverage, proof of alternate insurance and the employees' salary at the time of the buyout.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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