

Pelham Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
December 22, 2020



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Education and Audit Committee
Pelham Union Free School District
Pelham, New York

We have performed the procedures described in the following pages, which were agreed to by the Pelham Union Free School District (District), on benefits administration and certain information technology operations for the period January 1, 2020 through October 31, 2020.

The District's management is responsible for administering these areas.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on the District's benefits administration and certain Information Technology operations. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than the specified parties.

Cullen & Danowski, LLP
December 22, 2020

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures
For the Period Ended October 31, 2020

Introduction:

This report is categorized by function (i.e., benefits administration and information technology), and there are four sections under each function consisting of:

- Background information
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

The District should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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BENEFITS ADMINISTRATION

Background:

The District provides various benefits to the employees including health, dental, vision and life insurance as well as required pension contributions. These benefits are either mandated (payroll taxes, NYS Teachers' Retirement System [TRS], NYS and Local Employees' Retirement System [ERS], etc.), or are required by either collective bargaining agreement or individual contract. The District utilizes the nVision financial system, which is a sophisticated product that has been tailored to meet the requirements of New York State BOCES' and school districts.

The proper administration of benefits is an important function of the District. The District has 3 employees (i.e., District Treasurer, Accountant and Payroll/Benefit Clerk) who are responsible for the administration of the benefits. These employees have been in their positions for several years and understand their roles and responsibilities at the District.

For health benefits, the District is utilizing an online portal to facilitate processes related to new enrollments and changes in enrollment, which has eliminated the previously used hard-copy benefit enrollment forms. The staff in the Benefits Department review the employees' postings in the portal, process the changes related to coverage with the provider (i.e., State-Wide Cooperative Health Plan (SWSCHP) or HIP) and send any necessary updates to the respective employees in the Business Office.

The Payroll/Benefits Clerk has the following key duties related to benefits administration:

- Calculate the SWSCHP deductions needed to be taken from employees' paychecks to reimburse the District for the coverage.
- Prepare written documentation to formally communicate changes to deductions and billing amounts and send these communications to the appropriate recipients (e.g., administrators, other departments, insurance providers, etc.).
- Establish and maintain files and schedules containing the necessary information for every active employee in the District.
- Review and reconcile the insurance provider invoices and resolve any discrepancies with the respective provider. Once processed, the invoices are reviewed and approved by the District Treasurer and the Claims Auditor as part of the warrant review process before sending the payment to the insurance provider.
- Review the schedule for retiree billings and Medicare Part B reimbursements.

The Accountant has the following key duties related to benefits administration:

- Establish and maintain files and schedules containing the necessary information for eligible retirees in the District (e.g., year of retirement, retiree's bargaining unit, coverage type, dependent information, Medicare forms, etc.).
- Prepare information needed for the District's GASB 75 Survey (reporting of postemployment benefits other than pensions).
- Calculate the amounts needed to be billed to retirees to reimburse the District for the coverage.

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- Calculate the amounts needed to be disbursed to reimburse eligible retirees for Medicare Part B premiums.
- Track and process billings and reimbursements to retirees.
- Review the calculations for active employee payroll deductions.
- Assist the Treasurer with budget projections by preparing a spreadsheet for District's cost of retiree benefits.

The District Treasurer has the following key duties related to benefits administration:

- Prepare budget projections and monitor budget code balances.
- Record the necessary accounting entries related to benefits in nVision (e.g., expenditures, accruals, etc.)
- Review and approve insurance provider invoices and reconciliations prior to payment.
- Review and approve reimbursements to be made to retirees for Medicare Part B premiums.

The benefits original budget, adjusted budget, actual costs and the variance of actual costs from the adjusted budget for the 2019-20 fiscal year were:

| <i>Description</i> | <i>Original Budget</i> | <i>Adjusted Budget</i> | <i>Actual Costs</i> | <i>Variance</i> | |
|-------------------------------------|------------------------|------------------------|---------------------|-----------------|-----------|
| Health Insurance | 8,651,132 | 7,881,048 | 7,878,022 | 3,026 | 0.0% |
| Teachers' State Retirement System | 3,256,957 | 3,229,957 | 3,137,407 | 92,550 | 2.9% |
| Social Security/Medicare | 3,175,504 | 3,134,504 | 3,038,014 | 96,490 | 3.1% |
| Employees' State Retirement System | 780,620 | 780,620 | 726,513 | 54,107 | 6.9% |
| Dental, Vision, Life, LTD, and AD&D | 597,444 | 597,444 | 571,908 | 25,536 | 4.3% |
| Retirement Incentives | 120,000 | 340,000 | 306,663 | 33,337 | 9.8% |
| Workers' Compensation | 318,088 | 318,088 | 300,191 | 17,897 | 5.6% |
| Unemployment Insurance | 20,000 | 20,000 | 10,764 | 9,236 | 46.2% |
| <i>Total Benefits Costs</i> | <u>16,919,745</u> | <u>16,301,661</u> | <u>15,969,482</u> | <u>332,179</u> | <u>2%</u> |

The key processes and information for each type of insurance at the District are as follows:

Health Insurance

Health insurance is both the largest dollar expenditure and the most complicated benefit provided by the District. The net cost to the District in 2019-20 was \$7,878,022. The vast majority of the costs related to health insurance is based on requirements of the collective bargaining agreements. These agreements define the coverage to be provided, as well as the cost of coverage to be borne by the District and the cost to be borne by the employees. The percentage of costs covered by the employees varies based on the collective bargaining agreements from 4% to 50%. The allocation of the cost of coverage during retirement is also covered under these agreements.

The District offers two health insurance plans: State-Wide Schools Cooperative Health Plan (SWSCHP) and HIP HMO. The SWSCHP has the majority of participants with 475 enrollees while the HIP plan consists of 2 enrollees as of May 2020. Each month the District is invoiced for the coverage provided. The Benefit Clerk reviews this invoice, confirms changes from the prior month, prepares a reconciliation to the prior month invoice, approves the payment and submits records to the Treasurer, who reviews the invoice and authorizes

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the payment. The same procedure is followed for the payments to Emblem Health for the alternative health plan available to the employees (HIP HMO.)

Dental Insurance

The District provides most employees with the opportunity to enroll in one of two dental insurance plans: MetLife Dental and a dental plan administered by the Civil Service Employees Association (CSEA). Eligibility for enrollment and the contribution amounts for both the employees and the District is determined by the collective bargaining agreements for each respective bargaining unit. The District is billed monthly by the Metropolitan Life Insurance Company and the CSEA for the coverage provided to employees. The contributions for employees enrolled in the MetLife Dental Plan are deducted through payroll; there are no contributions required for employees enrolled through CSEA. The Benefits Clerk prepares a reconciliation monthly to ensure the accuracy of both vendor invoices and the contributions from the enrollees.

Vision Insurance

Many of the District's employees are eligible to enroll in one of three vision insurance plans: Shelter Point Vision, a vision plan administered by CSEA, and a self-insured vision plan administered by JJ Stanis. Eligibility for enrollment and the employee's contribution amount, if any, is determined by the collective bargaining agreements for each respective bargaining unit. The District is billed monthly by these vendors and the process of billings, collections and reconciliations follows the same procedures as that of dental insurance.

Life / Long-Term Disability (LTD) /Accidental Death and Dismemberment (AD&D) Insurance

Certain employees are provided life insurance coverage, LTD insurance and AD&D insurance based on their respective contract while they are actively employed with the District. The District is billed monthly by two third-party administrators, Mutual of Omaha and Reliance. The process of billings, collections and reconciliations is similar to the dental and vision insurance. The District covers the full costs of the life, LTD and AD&D.

Procedures:

Our procedures, as per the engagement letter dated July 1, 2020, were as follows:

- Review Board policies and procedures related to employee benefits regarding review and approval of invoices from service providers as well as costs charged to employees and retirees.
- Review all collective bargaining agreements and individual employee agreements to gain an understanding of the benefit-related obligations of the District.
- Interview District personnel responsible for insurance benefits related to billings, collections and provider payments for ensuring the accuracy of the data and that the changes to enrollments are processed in a timely manner.
- Compare the insurance benefits provided to employees to the respective bargaining unit contract requirements.
- Review the District's reconciliation of the monthly (or other period) invoice for each insurance provider to the District's employee and payroll records. In the event that the reconciliation was not prepared, we will assist the District in performing a reconciliation.

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- Review employee benefits related activity and for each type of insurance benefit:
 - Select 2 months and test the invoices of each insurance provider to ensure that the payments were accurate, processed timely and properly supported (e.g., reconciliation documentation).
 - Select 50 active employees enrolled in the health insurance benefits plan to ensure proper deductions from employees, payments to the plan providers were accurate and timely and rates were in compliance with approved plans.
 - Select 25 retirees enrolled in the health insurance benefits plan to ensure accuracy of their payments and verify their eligibility.
 - Select 5 employees on unpaid leave during the period to ensure that the District collected their health insurance contribution amounts, if applicable.
 - Review general ledger account activity for the benefit budget codes during the time period under review for unusual transactions or entries. Discuss any noted items with District personnel.
- Review the annual recalculation of cost allocations for fiscal years 2020 and 2021.

Findings:

Review of Board policies and procedures related to employee benefits regarding review and approval of invoices from service providers as well as costs charged to employees and retirees found:

- There are Board policies related to employee benefits that include: *Administration Compensation & Related Benefits - #4420, Health Insurance - # 6510, Workers' Compensation - #6520, as well as various other policies that cover a broad range of areas (e.g. purchasing policies, budget planning and development, etc.)*
- There are standard procedures to properly manage and account for the administration of the employee benefits at the District.

Interviews with District personnel responsible for insurance benefits found:

- There is a thorough understanding of the administration of all benefits.
- There is adequate segregation of duties and oversight to the activities.

Review of all collective bargaining agreements and individual employee agreements to gain an understanding of the benefit related obligations of the District and a comparison to the benefits provided to employees noted:

- The Superintendent's original contract states that the District contributes 80% of premium for family or individual health insurance coverage. However, it also states commencing July 1, 2019, the District is to pay 75% of the premium. Subsequent amendments to the original contract were unclear as to the District share of health insurance, but the District has continued to pay 80% of the cost of health insurance coverage.
- The Superintendent's contract does not mention life insurance, only disability insurance. However, the District has been providing and paying for life insurance coverage
- All other coverages provided to employees were in line with collective bargaining agreements or individual contracts.

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Review of billings and collections related to insurance benefits noted:

- The District has good procedures for billings and collections related to health insurance (i.e. payroll withholdings for active employees and the actively maintained spreadsheets utilized for tracking the invoicing and collection of retiree's contractually required insurance premium contributions.)
- The Business Office staff have processes in place to review, monitor and make collection efforts related to the accounts receivable balances that are outstanding for more than 60 days.

Comparison of the insurance benefits provided to employees to the respective bargaining unit contract requirements found:

- All coverages provided to employees were in line with collective bargaining agreements and individual contracts.

Review of the District's reconciliation of the monthly invoice for each insurance provider to the District's employee and payroll records noted:

- All invoices were reconciled monthly by the Payroll/Benefits Clerk and the reconciliation was included in the voucher package submitted to the Treasurer for payment.
- All employees enrolled in a benefit plan contributed towards their premiums (if required) and were eligible to receive such benefit based on their respective bargaining unit agreement.
- All retirees enrolled in SWSCHP contributed towards their premiums (if required) and were eligible to receive such benefit based on their respective bargaining unit agreement.

Selection of 2 months and testing the invoices of each insurance provider found: *(Note: the Auditor also reviewed vendor history reports to assess the timing of payments processed during other months within the audit period)*

- All payments were accurate, properly approved (i.e., Claims Auditor and Department Head) and charged to the correct budget code.

Selection of 50 active employees and 5 employees on unpaid leave during the period who were enrolled in the health insurance benefits plan found **(Note: All employees were actually selected):**

- All employees selected were entitled to health insurance benefits according to the bargaining unit contracts or employment agreements. One employee was being charged the prior year's employee contribution rate during the period tested. The District had identified the issue prior to our audit and corrected the issue prospectively; however, had not recouped the under-withholding for the 2019-20 school year. It is our understanding that the under-withholding is scheduled to be collected from the employee in December 2020.
- The Benefits Clerk prepares a spreadsheet in July that calculates the employee and the District's share of costs related to health insurance premiums. This spreadsheet is reviewed and approved by a different employee to ensure the amounts calculated are accurate. We found that the payroll deductions were accurate based on the respective employment contracts and the premium amounts agreed with the health insurance provider rates.

Selection of 25 retirees enrolled in the health insurance benefits plan found **(Note: All retirees were selected):**

- There were no exceptions or errors related to the retirees as all of the individuals were eligible for health insurance benefits and their respective contribution amounts (if any) were accurate.

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Review of the general ledger account activity during the period noted:

- There were no unusual transactions or journal entries based on our review of the general ledger account activity and discussions of noted items with the District's personnel.

Review of the annual recalculation of cost allocations for fiscal year 2020 and 2021 for accuracy (**Note:** *The District's recalculation of cost allocations is performed annually in June, with an effective start date of July 1*):

- All calculations used the appropriate premium rates and were in line with collective bargaining agreements and individual contracts.

Recommendations:

We recommend that the District consider implementing the following item to further improve internal controls and operational efficiencies related to benefits administration:

1. We recommend that the District clarify in writing the benefit coverage for the Superintendent.

INFORMATION TECHNOLOGY OPERATIONS

Background:

The Information Technology (IT) department is responsible for granting access to the District network, email and other applications. This is primarily the responsibility of the Director of Technology and Technology Administrative Assistant.

Procedures:

Our procedures, as per the engagement letter dated July 1, 2020, were as follows:

- Review Board Policies and departmental procedures related to IT operations.
- Interview IT personnel to determine procedures used in the following areas:
 - Account maintenance, user permissions and modifications to access level within the nVision system and the District's student data management system.
 - Network access and security.
 - Data access and security.
- Compare user list for nVision and the District network to payroll records and investigate any discrepancies with District staff.

Findings:

Review of the Board Policies and departmental procedures related to Information Technology (IT) operations found:

- There are Board policies related to IT operations that include: *Records Management - #5670, Disposal of Consumer Report Information & Records - #5671, Information Security Breach Notification - #5672, Employee Personal Identifying Information - #5673, Data Networks and Security Access - #5674, Student Grading Information Systems - #5675, Instructional Technology - #8270 and Internet Safety/Internet Content Filtering Policy - #8271.*

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- There are standard procedures to properly manage and account for the IT operations of the District.

Interviews with IT personnel to determine procedures used found:

- It appears there is a good understanding of the procedures in place and the importance of granting, changing and removing access to the District network on a timely basis.

Comparison of the user list for nVision and the District's network to payroll records found:

- There was one instance in which a former employee appeared to have access to nVision. We determined that BOCES was notified at the time of separation. When the apparent discrepancy was identified by us, BOCES investigated with nVision and it was determined that the person did in fact not have access as noted on the access report we were provided and nVision has corrected the report. It is likely that the apparent discrepancy would have been identified by the Treasurer who reviews the nVision user list each autumn but had not yet performed the review at the time of our engagement.
- We identified over 25 network accounts that were for employees no longer with the District. We provided this list to the District and it is our understanding that these accounts have been disabled.
- There were several network accounts with generic names.

Recommendations:

We recommend that the District consider implementing the following item to further improve internal controls and operational efficiencies related to Information Technology:

1. Network Access – We recommend that the District review each of the accounts we identified to determine a likely cause for the discrepancy. Procedures should be reviewed to help ensure timely removal of access and in addition, a full comparison of the network access to the payroll records should be performed no less than annually.