



PELHAM UNION FREE SCHOOL DISTRICT

Corrective Action Plan Related to Independent Accountant's Report on Applying Agreed-Upon Procedures November 27, 2013

The engagement was performed to review the administration of employee benefits for the period July 1, 2012 through September 30, 2013.

FINDINGS, RECOMMENDATIONS AND DISTRICT RESPONSE

Finding

During our interviews and through review of general ledger account activity during the time period, we found that the reimbursement from retirees is being accounted for a source of revenue. It is more appropriate to consider this reimbursement as a reduction of the expenditure.

We noted that the District has a significant amount of billings to third parties, but utilized spreadsheets to track this activity. It may be more efficient to utilize the Accounts Receivable module of Finance Manager for billings and collection activity. This would improve the segregation of duties related to these operations.

Recommendation

1. We recommend that the District consider accounting for the reimbursement of health insurance from retirees as a reduction of health care expenditures as opposed to a source of funding.
2. We recommend that the District consider implementing the Accounts Receivable module of Finance Manager to improve the efficiency and internal controls related to District billings.

District Response

1. **The District will account for the reimbursement of health insurance from retirees as a reduction of health care expenditures effective in FY2013-14 and in future years.**
2. **The District will implement the Accounts Receivable module of Finance Manager for employee benefit billings to improve the efficiency and internal controls related to those billings.**

Finding

We reviewed invoices of each health insurance provider to ensure that the payments were accurate, processed timely and properly supported (e.g., reconciliation documentation) and found no exceptions. The Junior Accountant prepares a reconciliation by person for each



invoice. However, this reconciliation is not attached to the invoice. The invoice is reviewed by the Assistant Superintendent for Business.

Review of payroll deduction matrix to bargaining unit contract language found:

- The HIP rate for family coverage is greater than the SWSCHP rate by \$287 per month for 2013-14. Currently there are no employees enrolled in family coverage in the HIP plan; however, there is no language in any bargaining unit contract which indicates that the employee should be responsible for the difference if the rate is higher. We were informed that the District is considering the options available.
- Review of 30 active employees enrolled in each health insurance benefits plan to ensure proper deductions from employees, payments to the plan providers are accurate and timely, and rates are in compliance with approved plans revealed that the teacher group was not updated at the start of the 2013-14 school year for the new payroll deduction rates for health insurance. The Junior Accountant typically will update the teacher employee deduction amounts with the new health insurance rates in the summer, however, the change was not processed timely this year. The update took place for the first pay period in October and included all retroactive amounts. The amounts involved were insignificant.

Independent reconciliation of the health insurance enrollee listing to the payroll records and the Human Resources records recorded in Finance Manager found:

One employee's payroll deduction amount for health insurance was incorrect. Her payroll deduction was at the family rate; however, her coverage by SWSCHP is for 2 people. A change form was submitted in May 2009 for a change to take place at the end of June 2009 from family coverage to 2 people. The change was made with the health insurance provider; however, this change was never made to the employee's payroll deduction amount. The District has since calculated the amount owed to the employee to be \$363 for the last 4.25 years. This amount will be reduced from her 2013-14 medical premium withholdings.

Recommendation

3. The Junior Accountant should attach each reconciliation to the respective invoice as documentation to the invoice amount. The invoice along with the reconciliation should then be forwarded to the Assistant Superintendent for Business for review and approval.
4. The District should consider adding wording to bargaining unit contracts during the next contract negotiations which requires employees to be responsible for any additional cost above the SWSCHP rate.
5. A checklist should be prepared for the tasks required to be completed for the first payroll of each fiscal year (July and September). This checklist should be completed by one employee and reviewed and approved by another employee. This will help ensure that all items associated with the first payroll of the year have been addressed.



District Response

3. **The Junior Accountant is now attaching her monthly reconciliation to the related monthly invoice.**
4. **The District is currently undergoing contract negotiations with three of its collective bargaining units. As part of that process, the District has reviewed contract language related to employee benefits and will include desired changes in its negotiation strategy with the various collective bargaining units.**
5. **The Junior Accountant will prepare an annual payroll checklist inclusive of procedures related to initial payrolls of the fiscal year. Responsibility for review of the completed checklist will be assigned to another Business Office staff person, with final review and approval by the Business Official. These measures will be taken during the 2013-14 school year.**

Finding

Review of the matrix for retiree health insurance contribution amounts found:

- The District maintains a spreadsheet to account for billings and collections. It may be more efficient to use the Accounts Receivable module of Finance Manager to record billings and collection.
- The Excel spreadsheet used to document the amounts invoiced and received from retirees for health insurance contributions for the 2012-13 school year was unavailable. This work was done by a former employee.
- We found that the 2013-14 matrix for retiree health insurance contribution amounts is complex and not clearly documented. The matrix is not reviewed by a second employee. Our review of the matrix found two errors in the Excel Spreadsheet used for the calculations of retiree contribution amounts for health insurance. However, no retiree currently has that type of coverage. One error was in the family/Medicare coverage type calculation where a rate was not updated. If this contribution amount was used, the retiree would have been overbilled by \$48 per quarter. The second error was in the retiree pays 25% category, where the retiree would have overpaid by \$145 per quarter if billed at the rate documented in the spreadsheet.

Review of retirees enrolled in District health insurance plans to ensure accuracy of their payments found:

- There is no mechanism in place to track retirees turning age 65. We found one instance where a retiree was billed and paid for the full year of coverage in July 2013; however, the retiree turns 65 years old in March 2014 and will change to a lower Medicare rate. The District owes the retiree \$124.32 for the 4 months at the lower Medicare rate. According to district personnel, the procedure is not to issue a credit in 2013-14, but rather the difference will be adjusted on the July 2014 invoice.



- The District's practice has been to provide retirees and spouses of retirees of the teacher's bargaining unit with the full reimbursement amount for Medicare part B. However, this practice is inconsistent with language in the teachers' contract. The contract states the District shall reimburse Medicare Part B percentages on the same basis as applied to the retiree health premiums as set forth in Article VI, Section A (2)(c). This Article sets the requirement of the retiree to meet a minimum requirement of service years or they are required to pay a portion of health insurance. Additionally, this Article requires the District to only cover 50% of the cost of a retiree spouse's health insurance coverage in retirement. The District is aware that its practice is inconsistent with the teachers' contract language and is working with the Teacher's Union to change this practice.
- The District provides full reimbursement of Medicare Part B to surviving spouses. The teachers' contract is silent as to how the District is to handle the cost of health insurance for surviving spouses. The practice has been for a surviving spouse to be covered by the District, however, at full cost to the individual. The reimbursement of Medicare Part B is inconsistent with this practice.
- One retiree who retired August 31, 2004, from the custodial bargaining unit is not contributing any amount for health insurance coverage for himself as required by the bargaining unit contract he retired under. He does contribute the appropriate percentage for his spouse. This retiree retired after the contract ending June 30, 2004 expired; however, prior to the settling of the new contract which was not settled until 2006. Contract language from the contract dated July 1, 2004 – June 30, 2008 states the Board will pay 100% of the cost of the individual coverage, and 50% for the cost of family coverage, both less the retired employee's contribution to premium, as set forth above. The retired employee's contribution to premium shall be the same as the active employee's contribution to premium. Additionally, there is no documentation in the retiree's file documenting this arrangement.

Recommendations:

We recommend that the District consider implementing the following measures to further improve internal controls and operational efficiencies related to administering retiree health insurance benefits:

6. The District should consider using the Accounts Receivable module of Finance Manager to record billings and collection. The AR module will improve segregation of duties as one employee will prepare the billings and another employee will mark the invoices paid.
7. The District should require one person clearly document the calculations in the matrix for the retiree billings and a second person review and approve the matrix as the calculations are complex and vary in each bargaining unit contract.



8. The District should review the system of billing retirees that turn 65 years old during the year to ensure refunds due the retiree are identified and processed on a timely basis.
9. The District should consider clearly documenting the District's requirements with respect to the reimbursement of Medicare part B during the next contract negotiations with the bargaining units.
10. The District should work with its attorney to determine if it is appropriate for the retiree, who retired during an expired contract, to continue to not contribute towards the cost of health insurance in retirement. If it is determined that the retiree should contribute the appropriate percentage toward health insurance, the District should review the employee files to determine if any other such cases exist.

District Response

6. **As previously noted, the District will implement the Accounts Receivable module of Finance Manager for employee benefit billings to improve the efficiency and internal controls related to those billings.**
7. **Effective in 2013-14, the District will ensure that the matrix for retiree billings is reviewed by an employee not responsible for preparing the matrix.**
8. **Effective in 2013-14, the District will ensure that retiree birth dates are tracked and that retirees turning 65 are flagged for billing adjustment during the course of the year.**
9. **As previously noted, the District is currently undergoing contract negotiations with three of its collective bargaining units. As part of that process, the District is reviewing contract language related to employee benefits and will include desired changes in its negotiation strategy with the various collective bargaining units.**
10. **The District has obtained legal counsel regarding the retiree who retired during an expired contract. The District is negotiating a Memorandum of Understanding to address any open issues related to the individual who retired in August 31, 2004.**

Regarding the comment on Medicare part B reimbursement practice being inconsistent with contract language, the District has now corrected this issue.

Further, the District is working with BOCES/Finance Manager to explore utilizing the Human Resource module at full capacity in order to assist in improving data management and human resource records.