Longwood Central School District

Review of Benefits

2018-2019 School Year

June 2019

The Board of Education
Longwood Central School District
35 Yaphank Middle Island Road
Middle Island, NY 11953

Board of Education:

We have been retained to function as the internal auditor for the Longwood Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND:

The District offers health insurance coverage only to eligible persons. Eligibility includes current and former employees as well as their families. Health insurance is provided by the New York State Health Insurance Program (hereinafter "NYSHIP") also known as The Empire Plan. Each eligible employee must actively elect the type of coverage desired or specifically waive coverage.

A major portion of our testing focused on the legitimacy and accuracy of the health benefits expenditures to ensure that health benefits being provided by the District are in accordance with contracts and policies approved by the Board.

SCOPE:

Our review included testing the various categories of health benefits listed below, which are further detailed in the following respective sections of the report:

I. Policies and procedures
II. Active employees
III. Retired employees
IV. Terminated employees who have elected COBRA
V. Surviving dependents of employees or retirees
VI. Qualifying employees on Leave of Absence (LOA)
VII. Young adult of an employee
VIII. Employees who have declined health insurance

We utilized the District's February 2019 NYSHIP Reconciliation Report to perform testing (the District did not have any vested employees or spouses/family members of a recently deceased employee known as extended benefits).

For each of the test selections, we verified whether:

- appropriate elections were made to continue coverage;
- the District was billed the correct rates and amounts for those insured; and

- the District was collecting the correct payments for such coverage as applicable.

CONCLUSION:

Our review indicated that the District has implemented effective internal controls over the benefits operations. Although we noted some findings as a result of our testing, the District is in the process of correcting these errors. Furthermore, the Administrative Assistant for Employee Benefits (hereinafter, "Benefits Administrator") is assessing current practices and implementing procedures to strengthen the internal controls to ensure health benefit expenditures are appropriate and benefits are provided in accordance with District contracts and policies. The Benefits Administrator should be commended for her efforts. The detailed results of our review are documented below.

I. POLICIES & PROCEDURES:

Based on our interviews and discussions with District benefits personnel, we noted that the District is knowledgeable of the guidelines that have been set forth by New York State, and has implemented procedures to ensure appropriate support documents are obtained and kept in the employee files.

Issue #1: The District does not have formal written procedures for the Benefits Administrator function.

Risk: There is a loss of historical knowledge and an increased risk of benefits being administered improperly or inefficiently.

Level: Moderate

Recommendation: We recommend the District implement formal written procedures for the Benefits Administrator function. Written procedures should include, but are not limited to, the following:

A. procedures to identify employees who may not be making contributions towards coverage (e.g. comparing the NYSHIP Reconciliation Report to the Payroll Register);
B. procedures to review internal spreadsheets of contribution, Medicare Part B reimbursement, and buy-back amounts to ensure all amounts are in agreement with bargaining unit contracts; and
C. procedures for removing individuals from NYSHIP (e.g. COBRA, young adult, surviving spouse, and employees on leave without pay) who are not making premium payments.

II. ACTIVE EMPLOYEES:

A) Invoice Charges and Employee Payments: We selected a sample of 40 active employees from the February 2019 NYSHIP Reconciliation Report. For each test sample, we traced the selection to the Payroll Transactions report in nVision for the month of February 2019 to verify whether the person was a current paid employee. We also verified whether employee did not elect to waive coverage. In addition, we examined the election forms to verify whether the employee elected the coverage he or she was actually receiving and confirmed whether the required coverage documentation was maintained by the District. Lastly, we verified whether the amounts the

employees were contributing toward their health insurance coverage (as reflected in the most recent payroll register) were accurate based on the employee contribution rates stated in the appropriate bargaining unit contract.

At the start of the calendar year, the rates for the health insurance premium generally increase. As such, the Benefits Administrator updates the benefits deduction amount and provides the new rates to Payroll who then inputs the payroll deductions in nVision. As part of our review of those employees receiving health benefits, we determined whether employees were contributing the correct benefits deductions and that the District was billed correctly.

> **Issue #2:** We noted 1 employee who was on career exploration leave and was not paying for her health benefits. Employees who are on leave without pay (excluding disability leave) are required to pay the full cost of the premium. The District paid approximately $6,250 for the premium for this employee. It should be noted that the District was aware of this issue and was working to rectify it.
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> We expanded testing by selecting an additional 10 employees to determine whether this was a systemic issue. No further exceptions were noted.
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> **Risk:** The District is providing benefits unnecessarily.
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> **Level:** Moderate-High
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> **Recommendation:** We recommend **t**he Benefits Administrator implement procedures to ensure that employees on leave without pay are required to pay the full cost of the premium or discontinue their insurance.

B) Proof of Eligibility: The District has adopted best practices related to collecting appropriate support documents, which require employees to provide the necessary documents for the type of coverage they select (e.g. marriage and/or birth certificate). These practices apply to new hires electing family coverage, or current employees requesting to change their current coverage from individual to family. In addition, NYSHIP recently conducted their own Dependent Eligibility Verification audit that required participants to provide proof of family coverage otherwise the employee would automatically be switched to single coverage. The District was provided with any changes in coverage resulting from the audit. We confirmed that each employee selected was receiving proper coverage based on the enrollment or change form maintained in the file. **No exceptions were noted**.

III. RETIREE TESTING:

A) Invoice Charges and Payments: For our testing, we judgmentally selected 40 retired employees receiving health benefits from the District from the February 2019 NYSHIP Reconciliation Report. As applicable, we verified whether the employee completed the appropriate number of years of service required to be entitled to receive retiree benefits. In addition, we confirmed each selection's employment and retirement date. We then verified whether the election forms (e.g. individual or family coverage) agreed with the coverage type the retiree is receiving, and that the retirees made the correct payments to the District based on the bargaining unit contract of the retiree's individual retirement contract. Lastly, we verified whether all necessary

support documents were submitted with any change in coverage. Those retirees who pay for their health benefits are invoiced by the school directly and remit payment on a monthly basis. We verified whether the District is properly tracking amounts owed by the retirees, and they are properly posting the payments.

Issue #3: We noted 1 retiree file that did not contain adequate support for the coverage provided.

Risk: Benefits may not be properly documented, and the District may be providing a benefit that may not have been requested.

Level: Moderate

Recommendation: We recommend the District maintain all of the necessary documentation on retirees to substantiate the coverage provided. It should be noted that subsequent to our review, the necessary support was obtained by the District for the retiree noted.

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Auditor's Comment: NYSHIP allows retirees to pay their health insurance premiums directly from their pension. During our testing, we noted that the District does not offer retirees the option of paying for their health benefits through their pension (TPEN/ EPEN). This increases the risk that the District does not receive payment for health benefits and/or may not bill retirees for health benefits. The District should consider offering retirees the ability to pay for health insurance benefits directly through their pension. Permitting this process will reduce the risk of the District not receiving payments.

B) Medicare Part B: The District is informed by NYSHIP on a monthly basis of any retiree who is becoming eligible to receive Medicare coverage. The Benefits Administrator informs retirees about Medicare Part B premium reimbursement, and requests that they attest that they would not be receiving the reimbursement from another source. The letters need to be signed, notarized, and returned to the District on an annual basis. The District notifies retirees that they should submit Form SSA-1099 if their premium payments were more than the District's reimbursement to them. The District disburses Medicare Part B premium reimbursements quarterly. If the retiree is receiving family coverage, the District is responsible for reimbursing the Medicare Part B premium portion for the retiree as well as his or her spouse, and the spouse is also required to provide the same attestation as mentioned above.

As part of our testing, we verified whether the District received signed attestations from those retirees in our sample who were Medicare eligible prior to remitting the payment to the retiree, and that the reimbursements paid in 2018 were correct.

Issue #4: During our review, we noted that the District reimburses the Medicare Part B premium on a quarterly basis using a standard reimbursement amount. In addition, the District makes another payment to eligible retirees to adjust for any variances between the standard reimbursement and the actual premium paid using a fifth payment.

While the District does collect Form SSA-1099 from those retirees that have paid more than the District has reimbursed, this does not allow the District to identify whether a retiree has been overpaid.

Risk: There is an increased risk of incorrect payments to retirees for Medicare Part B reimbursements.

Level: Moderate

Recommendation: We recommend the District require all Medicare eligible retirees submit Form SSA-1099 and the reimbursement be remitted annually based on the amount listed on Form SSA-1099. The implementation of such practice would eliminate the need for variance calculations, reduce administrative work, and reduce the risk of incorrect payments. It should be noted that effective January 1, 2020, the District will be outsourcing the Medicare Part B premium reimbursement to a third-party benefits administrator. In addition, the District is planning to transition to an annual reimbursement of Medicare Part B premiums in which reimbursements are made based on Form SSA-1099. We commend the District for its efforts to reduce risk and increase efficiencies.

IV. COBRA:

The District had 3 individuals who were listed as receiving COBRA benefits on the February 2019 NYSHIP Reconciliation Report. COBRA is billed by a third-party administrator who then remits the monies to the District on a monthly basis. The third-party administrator will inform the District if payments are not received. If payments are not received within three months, the Benefits Administrator will remove the individual from the insurance.

We selected the 3 former employees receiving COBRA benefits from the February 2019 NYSHIP Reconciliation Report. Our testing included examining the election forms to ensure the former employee elected to maintain health insurance coverage under COBRA. In addition, we obtained the check payment history and cash receipts journal in nVision to ensure the former employee was making the correct payment. **No exceptions were noted.**

Auditor's Comment: We noted 2 former employees receiving COBRA benefits that should have been removed from NYSHIP. One of the individuals had elected to discontinue coverage and the other had not remitted payment for 3 months. We were informed by the Benefits Administrator that she has been working with the third-party administrator and the New York Benefits and Accounting System (NYBEAS) to remove the individuals from NYSHIP. We confirmed that the Benefits Administrator has successfully cancelled health insurance coverage for these individuals retrospectively to the appropriate effective date.

V. SURVIVING DEPENDENT:

Surviving dependents have the option of continuing to receive NYSHIP Insurance through the District after the extended benefits period ends. All dependents that elect to continue coverage

through the District must make monthly payments of the entire cost of the benefits provided to them.

For our testing, we selected 10 of the 21 individuals receiving benefits as a surviving dependent from the February 2019 NYSHIP invoice to verify whether the District is providing the proper coverage as elected by the surviving dependent, proof of the deceased employee was provided, and the surviving dependent is remitting the correct amount to continue the health insurance coverage.

Issue #5: We noted 1 instance where the District was not billing a surviving dependent for insurance coverage and as a result no payment was remitted to the District from January 2019 through our testing date. The District paid approximately $521 of the cost of this individual's premium as of our testing date.

We selected 5 additional surviving dependents to test whether the District is properly collecting payment to determine whether this was a systemic issue. No further exceptions were noted.

Risk: The District is not collecting contributions as per the related bargaining unit contract and is paying for coverage for which they are not obligated to pay.

Level: Moderate

Recommendation: We recommend **t**he Benefits Administrator implement procedures to ensure that surviving dependents are billed for and pay the appropriate portion of the premium.

VI. LEAVE OF ABSENCE (LOA):

The District allows employees to take a LOA for a number of reasons, including maternity leave and health issues. Employees that are currently employed by the District and choose to take a LOA without pay are responsible for remitting their share of the premium while on Family and Medical Leave Act (FMLA), and then the full cost of the insurance payment once FMLA has ended to receive health insurance benefits. We selected 7 employees from the list of employees who went on a LOA during the 2018-2019 school year to determine whether they were listed on the February 2019 NYSHIP Reconciliation Report (i.e. they were receiving benefits). We then verified whether the employee's file contained appropriate forms and approvals for the time off requested. Lastly, we verified whether the employee was remitting the correct payment, and that the payments were properly posted in nVision. **No exceptions were noted.**

VII. YOUNG ADULT:

The District had 1 individual who was listed as receiving benefits on the February 2019 NYSHIP Reconciliation Report under Young Adult coverage. NYSHIP will send the dependent a notification indicating the dependent will be removed from the insurance at the end of the month in which he/she reaches the age of 26. NYSHIP advises the dependent that if he/she wants to continue coverage as a Young Adult Option that he/she must fill out the required form and pay the regular premium. The Young Adult Option is available for dependents 29 and younger, who are unmarried, are a child, adopted child, or stepchild of a NYSHIP enrollee

(including those enrolled under COBRA), not insured by or eligible for coverage through his/her own employer sponsored health plan, live, work or reside in New York State or the plan's service area, and not be covered under Medicare.

The District uses a third-party administrator to process application and payments for the young adult option. For the individual selected, we verified that the third-party administrator notified the District that the person elected the young adult option and has been remitting payments. **No exceptions were noted**.

VIII. DECLINATION AND BUY-BACK:

The District offers certain employees a cash payment, or buy-back, if the employee declines enrolling in the NYSHIP health insurance plan or elects single coverage despite eligibility for family coverage. Buy-backs are paid on the second payroll date after the calendar year-end for the prior calendar year and can be pro-rated by month to the point when the employee discontinued coverage.

As part of our testing, we judgmentally selected 20 of the 48 employees receiving the buy-back in February 2019. For each employee, we examined the NYSHIP invoice to verify whether those employees who elected to waive health insurance coverage were not listed as receiving benefits. In addition, we verified whether each employee who waived coverage was receiving the correct buy-back amount per the employee's contract. We also verified whether all supporting documentation existed to substantiate that the employee was entitled to receive family coverage if the employee was receiving the contractual cash value of that category of benefit. Lastly, we verified whether the employee completed and signed the necessary form to waive health benefits coverage.

Issue #6: We noted 1 instance in which the incorrect buy-back amount was paid to the employee based on the employee's individual contract with the District.

Risk: Incorrect payments may be made and not readily detected.

Level: Moderate-High

Recommendation: We recommend the Benefits Administrator review buy-back amounts to ensure the amounts to be paid coincide with each employee's respective contract.

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Issue #7: We noted 2 files that did not contain adequate support for the employees' eligibility for family coverage.

Risk: The District may be paying the incorrect buy-back rate to an employee.

Level: Moderate

Recommendation: We recommend the District require employees to submit documentation to support their eligibility for family coverage when electing to receive the buy-back.

We would like to thank the staff at the District for its cooperation and professionalism during our testing.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

Cerini & Associates, LLP
Internal Auditors