

Purpose of the Review:

The Laguna Beach USD has experienced District health care costs that exceeded the budget and possibly District contributions for the 2023-24 and 2024-25 fiscal years and expect the same for 2025-26. In order to understand the reasons why, the Board of Education authorized the Superintendent to obtain qualified independent auditors to implement specialized supplemental forensic financial audits, determined after notice and consultation with the Board President, to be necessary and prudent in order to prevent and resolve fiscal, budget and financial control deficiencies, and to ensure District compliance with applicable contracts, obligations and laws.

For the purposes of this review, health benefit plans will include District and employee contributions for the following plans:

- PPO & HMO medical
- Dental
- Vision
- Group term life

Objectives:

- Conduct a forensic analysis of district health care benefit spending over the past 3-5 fiscal years.
- Identify causes of spending variances and assess compliance with collective bargaining agreements.
- Evaluate internal controls and recommend improvements.
- Notify the Superintendent immediately of any improprieties or irregularities.
- Deliver clear, independent findings and recommendations to the Board, including a public presentation on a date to be determined.

Tasks:

- Review CBAs, budgets, interim reports, health plan documents, and staffing records.
- Perform reconciliation of budgeted vs. actual spending on health benefits.
- Interview key staff, former CBO and health care consultants.
- Deliver a detailed report, executive summary and Board presentation.
- Provide recommendations for contract compliance, budgeting, internal controls and any further analysis, if necessary.

Key Questions to be Answered:

- How do actual contributions compare to contracted limits over the past 3-5 years (possibly further)?
- What caused any overage (timing, staffing, policy decisions)?
- Are variances recent or long-standing?
- Were budget amendments properly documented and approved?
- Are internal controls sufficient to prevent future variances?
- Is there evidence of material breaches or improprieties?

DESCRIPTION OF THE OPERATING ENVIRONMENT

Budget Setting

The District is involved in district-wide budget planning and development during the period January through June of each year with the budget being adopted on or before June 30 of each year. Since the plan year does not start until October 1 and renewal rates are not known and agreed to until after budgets are developed, staff must estimate the expected cost of health and welfare benefits for each year.

Renewal Rates

Working with the health benefits broker through the Health & Welfare Insurance Committee, the District will generally receive renewal rates for the program between May and June with final rates agreed to generally in June of each year.

Eligible Unit Members – Certificated

According to the CBA, “The District agrees to provide certificated employees on sixty (60) percent contract or greater, and their dependents, medical, dental, life and vision (life and vision for employees only) insurance up to the district cap”

Eligible Unit Members - Classified

According to the CBA, “The District agrees to pay medical, dental and vision premiums for unit members as follows”:

| Unit Member Group | District Contribution |
|---|---|
| Unit members working six (6) hours or more per day, five (five) days per week | Medical, dental and vision for unit member and dependents |
| Unit members working at least four (4) hours per day, but less than six (6) hours per day, five days per week | Fifty (50) percent of the premium for medical, dental and vision for unit member and dependents |

MICHAEL BISHOP & ASSOCIATES, INC

District and Employee Contributions

Generally, after renewal rates are agreed to by the District, employee contributions are determined using language from the Collective Bargaining Agreements (CBA). As determined by the CBAs, “The District will contribute the following maximum amounts for eligible unit members”:

| District Annual Contribution PPO | | District Annual Contribution HMO | |
|----------------------------------|----------|----------------------------------|----------|
| Single | \$9,722 | Single | \$7,320 |
| Employee + Spouse | \$20,384 | Employee + Spouse | \$16,680 |
| Employee + Child(ren) | \$14,722 | Employee + Child(ren) | \$12,696 |
| Family | \$25,150 | Family | \$21,053 |

The CBAs go on to state, “Eligible unit members shall be responsible for any costs incurred over the individual District contribution” emphasis added.

Example of District and Employee Contribution Calculation – 2025-26

Annual plan premium – District contribution = Employee responsibility / 10 = 10th
Employee contribution

| Plan | Tier | Annual Total Premium | Annual District Contribution | Eligible Unit Member Responsibility | Employee 10 th Contribution |
|------------|-----------------------|----------------------|------------------------------|-------------------------------------|--|
| BS PPO | Employee | \$13,428.00 | \$9,722.00 | \$3,706.00 | \$370.60 |
| BS PPO | Employee + spouse | \$30,876.00 | \$20,384.00 | \$10,492.00 | \$1,049.20 |
| BS PPO | Employee + child(ren) | \$22,824.00 | \$14,722.00 | \$8,102.00 | \$810.20 |
| BS PPO | Employee + family | \$38,940.00 | \$25,150.00 | \$13,790.00 | \$1,379.00 |
| HMO Access | Employee | \$9,252.00 | \$7,320.00 | \$1,932.00 | \$193.20 |
| HMO Access | Employee + spouse | \$21,276.00 | \$16,680.00 | \$4,596.00 | \$459.60 |
| HMO Access | Employee + child(ren) | \$15,732.00 | \$12,696.00 | \$3,036.00 | \$303.60 |
| HMO Access | Employee + family | \$26,832.00 | \$21,053.00 | \$5,779.00 | \$577.90 |
| HMO Trio | Employee | \$8,136.00 | \$7,320.00 | \$816.00 | \$81.60 |
| HMO Trio | Employee + spouse | \$18,720.00 | \$16,680.00 | \$2,040.00 | \$204.00 |
| HMO Trio | Employee + child(ren) | \$13,836.00 | \$12,696.00 | \$1,140.00 | \$114.00 |
| HMO Trio | Employee + family | \$23,616.00 | \$21,053.00 | \$2,563.00 | \$256.30 |
| HMO Kaiser | Employee | \$9,846.00 | \$7,320.00 | \$2,526.00 | \$252.60 |
| HMO Kaiser | Employee + spouse | \$22,645.92 | \$16,680.00 | \$5,965.92 | \$596.59 |
| HMO Kaiser | Employee + child(ren) | \$16,738.32 | \$12,696.00 | \$4,042.32 | \$404.23 |
| HMO Kaiser | Employee + family | \$28,553.52 | \$21,053.00 | \$7,500.52 | \$750.05 |

Open Enrollment

Once renewal rates are agreed to by the District and employee contributions are determined, the health benefits consultant prepares the open enrollment booklet and the open enrollment window opens, generally running the month of August.

Health Benefits Plan Year

The plan year runs from October 1 through September 30 each year.

Complicating Factors

- Misalignment of fiscal and plan year.
- Renewal rates are not known until after the District budget is adopted, due to the misalignment of the fiscal and plan year.
- Multiple plans and tiers negotiated by the involved parties.
- Employee census is subject to change after the District budget is adopted and employee contribution setting, during open enrollment, due to life changes that may impact plan and tier choices by eligible employees.
- May require changes in employee contribution amounts during the plan year.
- Management of District cap and employee contributions.
- Requires frequent analysis to monitor fiscal performance and contract compliance.

ANSWERS TO KEY QUESTIONS

How do actual contributions compare to contracted limits over the past 3-5 years (possibly further)?

To answer this question, for the four years 2022-23 through 2025-26, the review team compared actual employee contributions to the eligible unit member responsibility as described earlier, and in all years, the District did not comply with the CBA.

What caused any overage (timing, staffing, policy decisions)?

For the four years 2022-23 through 2025-26, the District did not set employee contributions according to the language contained in the CBA, and consequently the District covered more of the total annual cost than it should have otherwise. The cause was not following the language contained in the CBA.

Are variances recent or long-standing?

For the period of this review, variances as defined as employee contributions not set appropriately occurred for 2022-23 through 2024-24 and currently for 2025-26, consequently the District covered more of the total annual cost than it should have otherwise.

Were budget amendments properly documented and approved?

Since the plan year does not start until October 1 and renewal rates are not known and agreed to until after budgets are developed, staff must estimate the expected cost of health and welfare benefits for each year. Not setting employee contributions as intended by the CBA, results in the District covering more of the annual cost of benefits than intended by the CBA. This may cause the District to overspend the budget established for health and welfare benefits. The District did adjust the budget for health and welfare benefits for 2024-25 first interim reporting period to cover an estimated budget short fall condition. Additionally, outside of the period of our review, in 2021-22, the District entered into an MOU with the Laguna Beach Unified Faculty Association/CTA/NEA to cover the increased health and welfare benefits of approximately \$350,000.

Are internal controls sufficient to prevent future variances?

As discussed above, the variances as described above were a result of not complying with the CBA. Our limited scope review of internal controls related to the functions involved with setting employee contribution rates should be improved.

Is there evidence of material breaches or improprieties?

As mentioned previously, for the four years 2022-23 through 2025-26, the District did not set employee contributions according to the language contained in the CBA, and consequently the District covered more of the total annual cost than it should have otherwise. The cause was not following the language contained in the CBA. Whether this lack of compliance is evidence of a material breach or impropriety requires a legal review and conclusion.

RECOMMENDATIONS

- The District should consider changing the plan year to coincide with the fiscal year to allow for better coordination with budget development, rate setting and health plan management. This item would be subject to negotiations.

- The District should increase the level of coordination and communication between the Business and Human Resources departments to ensure that employee contribution rate setting complies with the CBA.
- The District should review periodically and compare health and welfare costs to the adopted budget and determine if budget and or employee contribution changes are necessary. If determined necessary, such changes should be communicated to the District Health and Welfare Insurance Committee and Board of Education requesting action by the Board of Education accordingly.
- The District should review the currently negotiated health and welfare cap arrangement and plan structure. As mentioned above, the District has multiple plans (4) and tiers (4). This condition can add budget, rate setting and plan management complexity, especially for a district that is lightly staffed due to the size of the District. This item would be subject to negotiations.
- The District should review the level of staff in the Business department and Human Resources department that are available to work on health and welfare plan management given the current level of complexity.

Review Staff

- Michael P. Bishop, Sr.
- Kris Olafsson, VIK Consulting
- Camile Boden, VIK Consulting
- Stephanie Lin, VIK Consulting