

East Islip Union Free School District
Internal Audit Report on Detailed Testing -
Employee Benefits
September 30, 2025



**INTERNAL AUDIT REPORT ON DETAILED TESTING -
EMPLOYEE BENEFITS**

To the Board of Education and Audit Committee
East Islip Union Free School District
Islip Terrace, New York

We have prepared this report as the result of our detailed testing, as further described, which was agreed upon by the East Islip Union Free School District (District), on employee benefits for the period January 1, 2024 through April 30, 2025.

The District's management is responsible for administering this area.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, or the *International Standards for the Professional Practice of Internal Audit* issued by the Institute for Internal Auditors. 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 employee benefits. 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 use and information of the Board of Education (Board), Audit Committee, and the management of the District, and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP
Port Jefferson Station, New York
September 30, 2025

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For the Period Ended April 30, 2025

Introduction:

This report is organized by four sections consisting of:

- Background information
- Procedures performed during our detailed testwork
- Findings resulting from our review
- Recommendations to enhance internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a financial investment. However, any improvement 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, 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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EMPLOYEE BENEFITS

Background:

The District has obligations to fully or partially fund various employee insurance benefits based upon collective bargaining unit contracts with various employee groups and individual employee agreements. There are several insurance plans that are paid by the District including health, vision, dental, life and disability. These benefits are either mandated (payroll taxes, NYS Teachers' Retirement System [TRS], NYS Employees' Retirement System [ERS], etc.), or are required by either collective bargaining agreement, Board policy (unaffiliated/non-aligned employees) or individual contracts with employees (e.g., Superintendent). The most significant employee benefit related to activity and costs is health insurance coverage. Employees make contributions towards their health insurance coverage. The amounts of these contributions are governed by the collective bargaining unit agreements between the Board and the various staff groups or by individual contracts with employees. The 2024-25 original budget related to the District's employee benefits costs is \$34,057,025, which includes the health insurance budget of \$18,578,152, which is net of the employee contributions.

The proper administration of employee benefits is an important function of the District. The employee benefits administration is handled by a confidential account clerk as an additional responsibility. This employee has been in the role for 9 years and fully understands her role and responsibilities at the District. Additionally, there are account clerks that manage payroll, billing/accounts receivable, and accounts payable/cash disbursements related to the employee benefits activities. These employees have been at the District for a number of years and are experienced in their roles and responsibilities. The employee benefits administration activities are overseen and monitored by the Assistant Superintendent for Business.

The District utilizes the nVision financial system (nVision), which is a sophisticated program that has been designed to meet the requirements of New York State school districts. The District uses the benefits, accounting, accounts receivable, purchasing, payroll, and human resources modules to facilitate the record keeping of benefits related data and transactions including insurance enrollment information, employee and retiree data, withholdings towards health insurance premiums, processing payments to providers and accounting for the financial activities in the respective budget account codes.

Health Insurance

Active employees and retirees are provided health insurance under the terms of bargaining unit contracts or individual employee agreements. Each contract or individual contract agreement contains language that details the allocation of costs between the District and the employee. The District currently offers two health insurance plans: the New York State Health Insurance Program (NYSHIP), also known as the Empire Plan, and the EmblemHealth Health Insurance Plan of Greater New York, also known as the HIP Plan. NYSHIP is the District's primary plan and has the majority of participants with 869 enrollees while the EmblemHealth plan consists of 7 enrollees as of April 2025. In addition, employees have the option of receiving a payment in return for declining health insurance coverage that would otherwise be paid for by the District. The amounts paid to employees who are not enrolled in a plan for a full year varies based on the collective bargaining agreements or individual contractual agreements, with amounts ranging from \$6,110 to \$15,152 annually. This is also known as a "buyout" option that needs to be monitored to ensure that employees electing this option are not also covered under the health insurance plan. The amount of the "buyout" payments related to the 2023-24 year totaled \$1,403,825.

There is no fixed open enrollment period, employees can enroll at any time. However, a 90-day waiting period applies, unless they experience a qualifying life event. To obtain coverage effective on the date of the qualifying event, the employee must notify the Benefits Department on or before the date of the event. If the

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notification is made within 30 days after the event, coverage will begin on the first day of the following month. If notification occurs after 30 days of the event, the employee must wait 90 days for coverage to begin.

For new hires, the start of their health insurance coverage is based on the employee's respective collective bargaining unit contract or individually bargained agreement. The employee contributions towards health insurance vary based on the employment agreements for unaffiliated staff or the collective bargaining unit contracts, ranging from 19% to 50% of the premiums for individual or family coverage.

Dental Insurance

The District offers many of its employees the opportunity to enroll in dental insurance through the District's Self Insured Dental Plan. The Custodial unit can enroll in dental insurance through the United Public Service Employees Union. The District is billed monthly for the coverage provided to employees and any required employee contributions are collected through payroll withholdings. The District prepares a reconciliation to ensure the accuracy of both the vendor's invoices and the list of enrollees.

Life 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 a third-party administrator, J.J. Stanis & Company. The process of billings, collections and reconciliations is similar to the dental insurance.

Billings and Collections

The Benefits Administrator collaborates with an Account Clerk in the Business Office who manages the billings and collections related to invoicing for health insurance costs charged to retirees and participants with COBRA. The Benefits Administrator provides the Account Clerk with a list of individuals who need to be invoiced, then the Account Clerk prepares and sends out the invoices. The majority of retirees have their health insurance contributions withheld from their pension, so this reduces the number of retirees that the District needs to bill. The Account Clerk collaborates with the Deputy District Treasurer to manage the accounts receivable balances and if an invoice remains outstanding for 30 days, a notice is sent to the participant informing them that their account is past due. If the payment is not received within 2 weeks of sending the notice, then a second reminder is sent via certified mail stating that the health insurance will be canceled if the participant fails to pay the outstanding balance immediately.

Procedures:

Our procedures, in accordance with our engagement letter dated January 17, 2025, were as follows:

- Review Board policies and District procedures related to the insurance benefits and Medicare Part B reimbursements for employees and retirees.
- 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.
- Evaluate the procedures related to employee benefits regarding review and approval of invoices from service providers.

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- Review billings and collections to ensure proper segregation of duties and identify opportunities for operational efficiencies within the function.
- Compare employee insurance benefits to the respective bargaining unit contract requirements.
- Review the District’s monthly invoice reconciliations for each insurance provider to the District’s employee and payroll records. If we see that the reconciliation was not prepared, we will assist the District in performing a reconciliation.
- Review employee benefits related activity for the period and for each type of insurance benefit:
 - Select 1 month and test the invoices of each insurance provider to ensure that the payments are accurate, processed timely, and properly supported (e.g., reconciliation documentation).
 - Select 40 active employees enrolled in the health insurance benefits plan to verify that employee deductions, payments to the plan providers, compliance with approved plans, and rates are accurate and timely.
 - Select 25 retirees enrolled in the health insurance benefits plan to ensure the accuracy of their payments and confirm 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 the general ledger account activity during that period for any unusual transactions or entries and discuss any discrepancies with District personnel.
- Recalculate the allocation of health insurance costs between employees and the District for each change in premiums and/or contributions during the period.
- Review the processes related to the opt-out option for the health insurance plan. Select a sample of 15 opt-out payments processed during the period to verify the accuracy of the amounts and ensure that the employee was not enrolled in the health insurance plan during the opt-out period.
- Compare Medicare Part B reimbursements paid to retirees over two fiscal years and review supporting documentation for changes in individuals and amounts paid.
- Select 25 payments from the most recent Medicare Part B reimbursements and review supporting documentation to verify that the correct amounts were paid.

Findings:

Governance and Oversight:

Review of Board policies and District procedures, and interviews with District personnel responsible for insurance benefits related to billings, collections, Medicare Part B reimbursements, and provider payments found:

- The District has standard key processes regarding employee benefits administration activities to ensure these activities are authorized, performed, and monitored at an appropriate level. However, there is a lack of written, formal procedures documenting some of these key processes.
- The Benefits Administrator responsible for the insurance benefits activities demonstrates a strong understanding of their responsibilities, including the preparation of monthly health insurance detailed reconciliations, reviewing all insurance invoices for accuracy, collaborating with the employee responsible for billings and coordinating enrollment changes with the respective insurance providers.

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- The State pension system can be used to withhold retiree health insurance payments, and the District is active with setting up retirees with this arrangement.
- The District has standard procedures related to the handling, filing, and processing of payments for Medicare Part B reimbursements paid to retirees or their surviving spouses. This includes the Business Office sending a standard letter every year during December to each retiree who is eligible for Medicare Part B reimbursement asking them to submit the required records supporting such reimbursement. However, we found that all reimbursements paid to retirees are in the form of checks instead of using the method of ACH payments.

Billings and Collections:

Review of billings and collections to ensure proper segregation of duties related to insurance benefits noted:

- Billing calculations for a selected number of invoices were accurate and posted correctly in the District's invoicing records. Further review found that the respective collections were also posted accurately and correctly in the District's collections records.
- The procedures in place provide for appropriate segregation of duties, timely billings, and appropriate steps to collect outstanding invoices.
- There is an opportunity for improvement related to the billings to retirees for their health insurance contributions. We found that the District is not utilizing a web-based program to facilitate the collections process where the retirees could pay their monthly bill online rather than mailing in their payments.

Contract Compliance:

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

- The bargaining unit contracts, and employee contract agreements with staff who are unaffiliated with a bargaining unit, appear adequate with appropriate language related to insurance benefits. Further review found that there are no expired contracts or agreements at the time of our fieldwork.

Invoice Reconciliations:

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

- The Benefits Administrator reviews and approves the reconciliation of the health insurance invoice from NYSHIP. This includes completing a spreadsheet to facilitate the monthly comparison of enrollees with District information related to payroll deductions, pension withholdings, and billings. In addition, the Benefits Administrator reconciles the New York Benefits Eligibility and Accounting System (NYBEAS) report to the District's health insurance enrollment tracking spreadsheet and the payroll deduction register that lists the employees' contributions semi-annually to ensure completeness and accuracy of these records with District information related to payroll deductions, pension withholdings, and billings.

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Insurance Payment Testing:

Selection of 1 month of invoices and testing each insurance provider payment found:

- The review of invoices and payments for coverage during the month of November 2024 found that the payments were accurate, processed timely, properly supported, posted correctly, and properly approved.

Employee and Retiree Testing:

Selection of 40 active employees enrolled in the health insurance benefits plans noted:

- The payments to the health plan providers were accurate and timely, and the rates were in compliance with the approved plans.
- The payroll deductions from employees were proper, since the amounts withheld from the employees agreed to the required contributions as per the bargaining unit agreement or other support.

Selection of 25 retirees enrolled in the health insurance benefits plans found:

- The payments were accurate and timely, plus the retirees were eligible for coverage.
- The majority of the retirees' health insurance contributions are taken directly through the pension plan by New York State and the NYSHIP invoice reflects the net amount due. The other retirees' contributions are billed to the retiree by the Business Office.

Selection of 5 employees on unpaid leave during the period noted:

- The amounts collected from employees were proper, since the amounts received from the employees billings agreed to the required contributions as per the bargaining unit agreement or other support.

General Ledger Review:

Review of the general ledger account activity for all benefits costs and activities found:

- The accounts activity appeared appropriate as there were no unusual transactions or entries posted during the period.

Health Insurance Cost Allocation:

Recalculating the allocation of health insurance costs between employees and the District for each change in premiums and/or contributions during the period found:

- The health insurance costs allocated to the employees, based on their required contributions as per the bargaining unit or employment contracts, and the District were calculated correctly in the allocation worksheet prepared by staff in the Business Office.

Opt-Out Option Testing:

Review of the processes related to the opt-out option for the health insurance plan and the selection of 15 opt-out payments processed during the period noted:

- The review of the selected 15 payments to employees who chose the opt-out option were paid the correct amount and timely based on their respective employment contracts. Further review noted that these

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employees were properly excluded from the health insurance plan and properly excluded from payroll deductions.

Medicare Part B Reimbursements:

Comparison of the Medicare Part B reimbursements paid to retirees over two fiscal years and the review of supporting documentation for changes in individuals and amounts paid found:

- There were no errors or exceptions as the comparison of reimbursements paid to individuals for the two fiscal years agreed to the supporting documentation.

Selection of the 25 payments from the most recent Medicare Part B reimbursements and the review of supporting documentation noted:

- There were no exceptions or errors found as a result of our review of the selected 25 payments related to the amounts and timeliness of these reimbursements.

Recommendations:

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

1. Written Formal Procedures – Formalize an employee benefit procedures document to outline the key procedures to ensure continuity during any staffing changes or turnover. This should include:
 - a. Basic procedures that should be performed for key areas, such as:
 - i. Billing
 - ii. Medicare Part B reimbursements
 - iii. Opt-out of health insurance administration
 - iv. Reconciliations.
 - b. Indicate who the secondary reviewers of key reconciliation processes are to be clear and reduce the reliance on any single employee.
 - c. Send annual verification letters or certifications to confirm the retiree’s continued eligibility to ensure contact payment information is accurate.
2. Medicare Part B – ACH Payments – Pursue a change in method related to the payments of Medicare Part B reimbursements by moving to ACH payments instead of checks to enhance efficiencies by reducing the volume of checks and instances of potential unclaimed funds when the retirees do not cash checks.
3. Retiree Billings – Automatic Payment Process – Consider setting up an automatic payment process related to the collections from the retirees who are billed by the District for their contributions towards health insurance to enhance efficiencies (e.g., bill.com). This would streamline the accounts receivable process by replacing the live checks collected from retirees with electronic transfers.

