

Middle Country Central School District

Review of Benefits

For the 2022 – 2023 School Year

September 2023

The Board of Education
Middle Country Central School District
8 43rd Street
Centereach, New York 11720

Board of Education:

We have been retained to function as the internal auditor for the Middle Country Central School District (hereinafter, "the District"). Our responsibility is to assess 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 either the New York State Health Insurance Program (hereinafter "NYSHIP") also known as The Empire Plan, or HIP from Emblem Health (approximately 75 individuals are enrolled in this insurance plan). Each eligible employee must actively elect the type of coverage desired or specifically waive coverage.

SCOPE:

The purpose of our review was to assess the legitimacy and accuracy of the health benefits expenditures and other District benefit expenditures (e.g., buy-back payments) and to determine whether those expenditures being provided by the District are in accordance with bargaining unit contracts as well as policies approved by the Board.

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

I. Policies and procedures
II. Active employees
III. Terminated/Resigned Employees
IV. Retired employees
V. COBRA
VI. Surviving dependents
VII. Unpaid Leave of Absence (LOA)
VIII. Declinations and Opt-Out Payments
IX. Other categories not tested

We utilized the District's NYSHIP Reconciliation Report and invoice for the January 2023 period and bill as well as the District's HIP health insurance invoice for January 2023 to perform testing.

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 and in a timely manner for such coverage as applicable.

Lastly, for those selections who declined coverage and were eligible to receive an opt-out payment, we verified whether the employee was issued the correct buy-back payment by the District.

RESULTS of REVIEW:

Although we noted the District has implemented sufficient internal controls over the health insurance operations, we noted some areas where internal controls could be improved. The detailed results of our review are included below.

I. POLICIES & PROCEDURES:

Based on our discussions with District benefits personnel, we noted that the staff are 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. The District requires enrollees to submit proof of eligibility for family coverage (i.e., marriage certificates and/or birth certificates) upon hire if electing family coverage and when a qualifying event takes place during employment. In addition, the District requires alternate health insurance coverage and proof of eligibility for family coverage (if applicable) for those employees eligible to elect to receive a buy-back payment in lieu of health insurance benefits.

Issue 1: While we noted the Benefits Administrator has implemented some monthly reconciliation methods, we noted there are other reconciliation methods that should be implemented as detective controls. We also noted that checks for health benefits payments are sent directly to the benefits staff who are responsible also for invoicing the enrollee.

Risk: There is an increased risk that the District may provide and pay for coverage to enrollees who are no longer entitled to benefits, or the District may not be properly collecting health benefit payments.

Level: Moderate-High

Recommendation: We recommend the District implement the following:

- Ensure payments for health insurance benefits (i.e., from retirees, surviving spouses, those on COBRA, those who elect the young adult option, those who are vested, and those who wish to continue benefits when on leave without pay) are for the correct amount and received in a timely manner.
- Ensure participants 65 years old or older are enrolled in Medicare, if applicable.
- Compare those who have declined benefits or are on leave of absence to the NYSHIP and HIP reconciliations/bills to ensure employees are not receiving benefits, if applicable.

- Ensure payroll deductions related to health insurance benefits are correct and agree with the coverage selected.
- Perform a full reconciliation at least twice a year to ensure the coverages are appropriate based on the most recent election form.
- Ensure someone independent of the benefits department is logging all payments for benefits received. If this is not feasible, the benefits clerk should maintain a copy of the checks received. On a monthly basis, the Benefits Administrator should review the payments recorded by the benefits clerk and compare them with the copy of the checks to ensure that the amounts recorded are correct.

Management's Response: *The HBA will implement a process where the Benefits Administrator will receive all copies of checks that the Benefits Clerk is posting and reconciling accordingly. This will be for all COBRA, surviving spouses, young adults as well as any direct pays made to the district. The HBA will perform a full reconciliation twice a year to ensure coverages are appropriate. Payroll deductions will be checked each payroll prior to running to ensure accuracy. The HBA will follow up until all applicable Medicare information is received for retirees during the retirement process or have proof of such efforts.*

Planned Completion Date: *11/1/2023*

II. ACTIVE EMPLOYEES:

We randomly selected a sample of 40 active employees from the approximately 933 active employees receiving benefits as per the NYSHIP January 2023 reconciliation report, and 10 employees listed on the HIP January 2023 invoice. We traced each selection to the Payroll Transaction report from the District's financial management system (nVision) for the month of January 2023, verified whether the employee was eligible to receive benefits and determined whether the District was billed the correct rate for the enrollee selected. In addition, we examined the benefits file to verify whether the employee elected the coverage he or she was receiving, confirmed the required coverage documentation was maintained by the District, and confirmed the employee did not elect to waive coverage. Lastly, we verified whether the amounts the employees were contributing toward their health insurance coverage (as reflected in the most recent payroll register) coincided with the employee contribution rates stated in the respective bargaining unit contract.

Issue 2: We noted the following:

- 1 instance where the enrollee had elected to decline benefits yet was still receiving benefits. Through further discussion with the Benefits Administrator, the employee requested to go on her husband's insurance effective 10/1/2020; however, she was not properly unenrolled in NYSHIP. The District provided her with the declination payment in 2021 and 2022 for a total of $3,500.98. In addition, the District paid NYSHIP for her health premiums for a total of $28,119.40.
- 3 instances where the current election form was not in the employee's file, and we did not see support for family coverage (it should be noted these employees were hired before the current Benefits Administrator).
- 1 instance where the wrong amount was being deducted from an employee's paycheck. The employee was overpaying $22.31 per check since January 2023. The

Benefits Administrator has adjusted the payroll deductions to properly credit the employee.

- 1 instance where an employee is receiving benefits and also on the buyback list. This employee erroneously received the buyback payment for 2022 for a total of $3,499.98. The Benefits Administrator removed the employee from the buyback list and contacted the employee to recoup the overpayment.

Risk: The District is overpaying for benefits and/or may not be providing benefits in accordance with employee's elections.

Level: Low

Recommendation: We recommend that the employee be required to complete a new election form when the employee is requesting a change in coverage from single to family.

Management's Response: *The HBA has implemented a new election form. This form is utilized for new hires and changes.*

Planned Completion Date: *11/1/2023*

III. TERMINATED/RESIGNED EMPLOYEES:

We obtained a report from nVision of employees who were terminated or resigned from the District from July 1, 2022 through January 31, 2023 to confirm they are not receiving benefits. We selected 15 of the 42 employees from that report to confirm that the individual was not receiving health insurance through NYSHIP or Emblem. If a separated employee was receiving benefits, we determined whether they were correctly receiving benefits, whether the coverage category was appropriate (i.e., Vested or COBRA), and whether the appropriate forms were filled out. **No exceptions were noted.**

IV. RETIRED EMPLOYEES:

We noted that most retirees do not pay for health insurance premiums. Those retirees who pay for their health benefits are either invoiced by the District and are required to remit payment at a minimum on a monthly basis or pay their premiums directly through their pension. For our testing, we judgmentally selected 42 of the 1,203 retired employees receiving health benefits from the District from the January 2023 NYSHIP reconciliation report who are listed as "APAY" (i.e., the retiree pays the District for their portion of the health insurance premium if applicable), 2 from the January 2023 HIP invoice. We then selected 18 of the 240 retirees from the January 2023 NYSHIP reconciliation report who were listed as "TPEN" or "EPEN" (i.e., the retirees elected to have their portion of the health insurance premium paid directly from their pension). As part of our testing, we examined the retiree's date of hire and date of retirement to assess whether the retiree completed the appropriate number of years of service required to be entitled to receive retiree benefits. We then verified whether the election forms agreed with the coverage type (e.g., individual or family coverage) the retiree is receiving per the NYSHIP/HIP invoice. Lastly, for the retirees in our selection that were required to pay directly to the District for their part of the health

insurance premium, we verified that the retiree made the correct health insurance premium payments per their contractual agreement. **No exceptions were noted**.

Issue 3: Although we did not note any exceptions from our testing, we noted that HIP charges the District the active employee premium for retirees who are Medicare eligible (the premium for active employees is approximately $1,000 more per month per enrollee). Retirees who are over 65 should have Medicare as their primary health insurance and HIP as secondary coverage.

Risk: The District is paying more for health insurance than required to.

Level: Moderate-High

Recommendation: We recommend the District review the agreement with HIP to have retirees enrolled in a Medicare supplemental plan. This can result in significant savings to the District.

Management's Response: *The district is exploring other options for Medicare supplemental plans for those 65 and over, in compliance with contractual agreements*.

Planned Completion Date: *10/1/2023*

***

Issue 4: The District is informed by NYSHIP on a monthly basis of any retiree who will become eligible to receive Medicare coverage. Once a retiree has Medicare, NYSHIP will charge a lower premium for that retiree. We had noted when performing this review at other school districts, NYSHIP sometimes does not change the retiree to one of the Medicare coverage categories, thereby billing districts at the higher premium rate. As part of our review, we analyzed the ages of all retirees within the January NYSHIP reconciliation report to assess whether those that are over 65 are listed in one of the Medicare coverage categories. We noted 7 instances where a retiree was over 65 years old and was not in one of the Medicare coverage categories. It should be noted that the 3 individuals recently retired with the District.

Risk: The District is overpaying for health insurance for retirees who are Medicare eligible.

Level: Moderate

Recommendation: We recommend that the Benefits Administrator perform an assessment on a quarterly basis of enrollees who are over 65 years of age to ensure that NYSHIP has them in the correct coverage category.

Management's Response: *The HBA has created a spreadsheet to better track changes and reconcile against NYSHIP billing.*

Planned Completion Date: *11/1/2023*

V. COBRA COVERAGE:

When an employee is terminated, the Health Benefits Administrator sends a letter to the employee indicating the process for continuing coverage through COBRA, along with the amount of the premium. Per NYSHIP, "When an employee is terminated, COBRA begins on the first date following the date the…health coverage ends due to the termination. The COBRA enrollee would have to pay [the] COBRA premium starting from the date the…health insurance coverage ends." We noted the Health Benefits Administrator issues a bill monthly for the current month for the elected continued coverage payable on a monthly basis. The Health Benefits Administrator reviews current invoices for outstanding invoices and will follow up with enrollees. Enrollees will not be allowed to exceed 3 months unpaid. Per NYSHIP,

> *"COBRA enrollees will have an initial grace period of 45 days to pay the first premium starting with the date continuation coverage is elected…After the initial 45-day grace period, enrollees will have a 30-day grace period from the premium due date to pay subsequent premiums. Payment is considered made on the date of the payment's postmark…After the grace period, coverage must be cancelled for non-payment of premiums. Coverage ends on the last day of the month for which premiums have been paid. Once coverage has been cancelled, it cannot be reactivated again on COBRA status. A notice of cancellation should be sent to the enrollee indicating the date coverage ends."*

If payments are not received, the Health Benefits Administrator will follow up with the former employee.

The District had 1 enrollee who was listed as receiving COBRA benefits on the January 2023 NYSHIP invoice. Our testing included examining the election form to ensure the former employee elected to maintain health insurance coverage under COBRA. In addition, we obtained the check payment history to ensure the former employee was making the correct payment and payment was up to date. **No exceptions were noted**.

VI. SURVIVING DEPENDENTS:

The surviving dependent of a District employee has the option to continue coverage. We noted that the Benefits clerk maintains a spreadsheet of all payments owed and received from surviving spouses. We randomly selected 7 of the 51 surviving dependents listed on the NYSHIP reconciliation export as of January 2023 and performed testing to assess whether:

- the District is providing the proper coverage as elected by the surviving dependent,
- the District is being charged the correct premium rate by NYSHIP,
- proof of Medicare eligibility was provided, if applicable,
- the amount is properly recorded in the District's accounts receivable spreadsheet, and
- the surviving dependent is remitting the correct payment to continue the health insurance coverage and in a timely manner.

Issue 5: We noted the following**:**

- 1 instance where the District underbilled the surviving spouse. The employee, who was Medicare eligible, passed away in June 2021 and the District invoiced the surviving spouse at the Medicare coverage rate, however the individual was not eligible for Medicare. The total amount underbilled was approximately $15,845.00.

- 1 instance where the surviving dependent was not paying the correct monthly amount on the invoice from January 2023 to April 2023 (i.e., the person was paying $389.77 rather than $476.69, resulting in an underpayment of $348.88). Should the surviving dependent pass away, the District would have to recoup the difference in the amount owed. In addition, we noted that the Benefits clerk recorded the expected amount owed rather than the amount paid in for this individual, and as such, would not readily know that the person owed the District money. It should be noted that during our review, the surviving spouse did pay the District the difference in the amount owed for the 4 months noted.

As a result of the instances noted above, we expanded our testing and selected an additional 5 surviving spouse enrollees to assess whether the enrollee was billed correctly and remitted the correct payment in a timely manner. **We noted no additional exceptions**.

Risk: The District is not collecting all revenue owed in a timely manner.

Level: Moderate - High

Recommendation: As noted in recommendation #1, we recommend the District implement monthly reconciliation procedures that would require the Benefits Administrator to review the payments entered into the spreadsheet by the Benefits clerk and compare them to the checks received to ensure payments are entered correctly and remitted timely. We also recommend that the spreadsheet track the balance owed per month. This will help to identify those payments that are in arrears in a timely manner.

Management's Response: *The district will implement the suggestion of the HBA reviewing the Benefit clerk's spreadsheet and reconciling payments posted. The spreadsheet will have a column added to easily track balances.*

Planned Completion Date: *11/1/2023*

VII. 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. It is District procedure for an employee on FMLA to pay their portion of the health insurance benefits when they return from leave.

We requested a listing from nVision of all employees on unpaid LOA or FMLA from July 1, 2022 through February 28, 2023. We selected the 1 employee who was listed as on unpaid leave during January 2023, and verified whether the employee was remitting the correct payment and remitted the payment timely. **No exceptions were noted.**

VIII. DECLINATIONS AND OPT-OUT PAYMENTS:

The District offers certain employees a cash payment, if the employee declines or opts out enrolling in the health insurance plan (the opt-out amount varies based on the bargaining unit contract). If an employee declines enrollment, they must sign an opt-out form and the form must be remitted annually. The Benefits department collects proof of alternate coverage upon initial request for the opt-out as well as support for family benefits. The employees are paid in January for the prior calendar year.

As part of our testing, we selected 40 of the 320 employees who received the opt-out payment in January 2023 based on a report produced from nVision. For each employee, we examined the NYSHIP reconciliation report from January 2023 as well as the Emblem January 2023 invoice to verify whether those employees who elected to waive health insurance coverage were not listed as receiving benefits, or if on the insurance, the employee was being covered by a spouse who also works in the District. In addition, we verified whether each employee who waived coverage was receiving the correct opt-out amount per the employee's contract. **We noted no exceptions with the opt-out payments.**

We also verified whether supporting documentation existed to substantiate that the employee was covered under another insurance plan. Lastly, we verified whether the employees completed and signed the necessary form to waive health benefits coverage.

> **Issue 6:** We noted 23 instances where proof of alternative insurance was not maintained in the employee's file.
>
> **Risk:** District is not in compliance with its own procedures.
>
> **Level**: Moderate
>
> **Recommendation**: We recommend that the District ensure proof of alternate insurance is provided and maintained in the employee's file.
>
> ***Management's Response***: *The HBA will ensure proper proof of insurance is given at time of declination.*
>
> ***Planned Completion Date***: *10/1/2023*

IX.OTHER CATEGORIES NOT TESTED:

A) Vested Employees: An employee who terminates employment before retirement age is eligible to continue coverage under NYSHIP as a vestee as long as the enrollee is a member of the retirement system, is contractually eligible to receive benefits in retirement, and has met the employer's minimum service requirement for continuation of health insurance coverage into retirement, if any. The District did not have anyone enrolled as a vested employee during our testing. Through our discussions with the Benefits Administrator, we noted the procedures to bill and track payments owed from those who are vestees are consistent with the payment collection processes for those who must remit payments directly to the District. **See recommendation #1**.

B) <u>Young Adult</u>: Once a dependent reaches the age of 26, 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 under the 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 did not have anyone enrolled as a young adult during our testing period. Through our discussions with the Benefits Administrator, we noted the procedures to bill and track payments owed from those who are young adults are consistent with the payment collection processes for those who must remit payments directly to the District. **See recommendation #1**.

We would like to thank the staff in the District for their 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