

# Sullivan West Central School District

## Retiree Health Insurance

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DECEMBER 2019

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Sullivan West Central School District

### Audit Objective

Determine whether District officials and personnel ensured that health insurance contributions from eligible retirees were properly billed, collected and deposited.

### Key Findings

District officials did not provide sufficient oversight to ensure that retirees' health insurance contributions were properly billed, collected and deposited. Officials did not:

- Adequately segregate duties related to billing, collecting and depositing retirees' health insurance contributions.
- Ensure that sufficient documentation was maintained to verify the calculations of certain retirees' contributions.

### Key Recommendations

- Adequately segregate duties relating to billing, collecting and depositing retirees' health insurance contributions or implement sufficient compensating controls.
- Ensure that documentation necessary to verify calculations of all retirees' health insurance contributions is maintained.

District officials generally agreed with our recommendations and indicated that they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the District's response.

### Background

The Sullivan West Central School District (District) serves eight towns in Sullivan and Delaware counties.

The District is governed by the Board of Education (Board) composed of nine elected members. The Board is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is the chief executive officer responsible, along with other administrative staff, for the day-to-day management under the Board's direction.

The District Treasurer (Treasurer) is responsible for determining retirees' eligibility for health insurance benefits and billing, collecting and depositing health insurance contributions.

#### Quick Facts

<b>2019-20 General Fund Appropriations</b>	\$37.9 million
<b>2019-20 Retirees' Health Insurance Costs</b>	\$2.9 million
<b>2019-20 Retirees Receiving Health Insurance Benefits</b>	174

### Audit Period

July 1, 2018 – August 1, 2019

# Retiree Health Insurance

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The District offers health insurance to retired employees and their eligible dependents. Most retirees are required to contribute a percentage of their premium to remain insured based on their respective collective bargaining agreements or employment contracts.

## How Should Officials Oversee Retiree Health Insurance Contributions?

School districts incur a significant cost by providing health insurance coverage to retired employees and their dependents. Officials should ensure that only eligible retirees and dependents are covered by district-sponsored health insurance in accordance with employment contracts. Many districts also require retirees to contribute towards health insurance premiums to offset the cost of providing coverage.

Procedures should be designed to ensure that retiree contributions are accurately billed, collected and deposited in district bank accounts. Officials should establish procedures to ensure that one employee does not control all the phases of the billing, collecting and depositing process for retiree health insurance contributions. Key duties should be segregated so that the work of one employee is routinely verified by another. If it is not feasible to segregate duties, compensating controls, such as providing additional oversight, should be implemented.

Also, procedures should include steps to identify deceased retirees in a timely manner so that coverage can be canceled, or, if contributions need to be adjusted, dependents can be contacted to discuss the adjusted contribution amount.

## Officials Did Not Adequately Oversee Retiree Health Insurance Contributions

The Treasurer performed all duties related to billing, collecting and depositing retiree health insurance contributions without any oversight. Also, the Treasurer determines whether a retiree is eligible<sup>1</sup> to receive the District's health insurance at the time of retirement. The Treasurer maintained an electronic spreadsheet (spreadsheet) listing all retirees by types of coverage (i.e., single or family), which she also used to track retiree health insurance billings and contribution payments.

The Treasurer's spreadsheet contained the percentage of premiums and contributions each retiree was responsible for.<sup>2</sup> Each year, the Treasurer

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<sup>1</sup> Generally, all collective bargaining agreements and employment contracts stipulate the number of years of service required to be eligible to receive District-sponsored health insurance coverage.

<sup>2</sup> The percentage of the premium a retiree must contribute is based on the retiree's employment contract upon retirement.

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calculated the new premium amounts, prepared and mailed billing letters to each retiree and updated the spreadsheet accordingly.

District officials designed adequate procedures to determine whether retirees who received health insurance benefits were still living. Each year, all retirees were required to send the District a copy of their Social Security benefits letter.<sup>3</sup> Retirees were allowed to make annual, quarterly or monthly payments, which the Treasurer collected and electronically deposited into District bank accounts.

Officials did not review the Treasurer's calculations of retiree contributions or compare the calculations with the billing letters. In addition, District retirement records did not include all the necessary documentation for the 93 retirees who retired before June 30, 2015, such as hire dates, retirement dates or the amount of health insurance contributions paid the year before retirement,<sup>4</sup> to adequately support the Treasurer's calculations.

Since the current Treasurer began employment in 2015, she has maintained the necessary documentation to support her calculations. However, officials did not compare the amounts the Treasurer reported as collected to the amounts deposited in the bank. These weaknesses occurred because officials did not adequately segregate the Treasurer's duties or implement compensating controls, such as providing oversight. Officials told us that they were unaware of the need to segregate the Treasurer's duties or implement compensating controls over billing, collecting and depositing retiree health insurance contributions.

Because of these weaknesses, we reviewed the health insurance coverage for 26 individuals who retired after 2015 to determine whether the retiree had the required number of years of service to be eligible for health insurance coverage.<sup>5</sup> We recalculated the contribution rates for these retirees compared to the Treasurer's billing letters and found no discrepancies.

We reviewed the Treasurer's 2018-19 spreadsheet to determine whether the payments received from all 100 retirees required to contribute to the cost of District-provided health insurance<sup>6</sup> were accurately recorded as collected. In addition, we reviewed all 278 payments totaling \$126,890 paid during five months of our audit period to determine whether they were deposited intact and in a timely manner. Further, we compared a list of all retirees with District-provided health insurance coverage against the Social Security Administration database to

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<sup>3</sup> Surviving spouses are also required to submit a copy of their benefit letter.

<sup>4</sup> All the collective bargaining agreements and employment contracts for these employees specified that retiree contributions would not exceed the premium rate in effect the year before retirement.

<sup>5</sup> See Appendix C for information on our sampling methodology.

<sup>6</sup> Out of 170 retirees covered by the District's health insurance in 2018-19, only 100 were required to make contribution payments based on their respective collective bargaining agreements or employment contracts.

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determine whether any deceased retirees were still covered under the District's health insurance plan and found no exceptions.

Although our testing did not identify any discrepancies, officials could improve controls over retiree health insurance by implementing compensating controls to decrease the risk that errors or irregularities could occur and remain undetected.

### **What Do We Recommend?**

District officials should:

1. Segregate retiree health insurance contribution billing, collecting and depositing duties or establish sufficient compensating controls.
2. Ensure that documentation necessary to verify calculations of all retirees' health insurance contributions is maintained.

# Appendix A: Response From District Officials

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## Sullivan West Central School District Board of Education

Rose Joyce-Turner  
Board of Education President

Lucas Arzilli  
Board of Education Vice President

Juliete Gaebel  
Ken Cohen  
Trevor Peachey  
Kathleen Meckle  
Jennifer Nystrom  
Katrina Chellis  
Annette Rasmussen

December 2, 2019

Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

### **RE: Corrective Action Plan to Report of Examination 2019M-196**

The School District appreciates the thorough Audit conducted by your office this past summer. We are gratified by the finding that no monies were mishandled, and that our internal controls were found to be excellent. Please accept this response as the Corrective Action Plan for Sullivan West Central School District. This plan will be reviewed for approval at the District's December 19, 2019 Board of Education Meeting.

See Note 1 Page 7
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As you know, the Audit revealed insufficient compensating controls with regard to the retiree health insurance. It is the District's intent to address the lack of oversight on the process of billing, collection, deposit and recording of retirees' health insurance contributions by including personnel from the Sullivan County BOCES Central Business Office as outlined below.

The BOCES Personnel Specialist will begin the process of locating the retirees' information to confirm years of service, date of retirement, the contract in effect at retirement, as well as eligibility of benefits. Copies of these records will be kept in the Business Office for future reference.

The Personnel Specialist will be responsible for the billing process. The District Treasurer will review all the bills before they are sent to the retirees. The District Treasurer will continue to receive and deposit the payments from retirees and notify the Personnel Specialist of any outstanding balances. All receipts will continue to go to the Central Business Office to be recorded on the books by the Accountant. They will be shared with the Principal Account Clerk who will record the health insurance contributions received from each retiree on a spreadsheet. Any outstanding balances will be reported to the District Treasurer. At the end of the school year, the Principal Account Clerk's schedule should reconcile to the amount recorded on the books and, also reflect the schedule of pre-payments for the new year. As in the past, the accountant will continue to review the spreadsheet for accuracy.

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This segregation of duties should establish the compensating controls necessary to reduce risk in the area of retiree health insurance.

Sincerely,



Rose Joyce-Turner  
Sullivan West Board of Education President

CC: Mr. Stephen Walker, Superintendent of Schools  
Mrs. Lorraine Poston, Assistant Superintendent for Administrative Services

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# Appendix B: OSC Comment on the District's Response

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## Note 1

Our audit focused on internal controls over retiree health insurance billings and collections. Although we did not find any discrepancies with the billings or collections, we found internal control weaknesses in these areas and offered two recommendations to strengthen these controls.

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and staff to gain an understanding of the controls over billing, collecting and depositing retiree health insurance contributions.
- We reviewed the July 2018 and July 2019 health insurance bills and determined that 170 retirees were covered by District-sponsored health insurance during 2018-19 and 174 in 2019-20. We then eliminated the 93 retirees who retired prior to 2015 because officials lacked documentation necessary to verify contribution payment calculations, leaving a population size of 77 retirees for 2018-19 and 81 for 2019-20. We then used our professional judgment to select a sample of 13 retirees from each year to ensure variety within our sample selection based on contract, position and year of retirement, for a total sample size of 26 retirees. For our sample:
  - We calculated each retiree's number of years of service and reviewed applicable contracts to determine whether retirees were eligible for District-sponsored health insurance.
  - We recalculated each retiree's contribution amounts based on type of coverage (e.g., single, family, etc.) and applicable employment contract and compared our calculation to the Treasurer's calculation, billing letter and spreadsheet to determine whether retirees' contribution amounts and billing letters were accurate.
- We reviewed the Treasurer's 2018-19 spreadsheet to determine whether payments from all 100 retirees required to make payments were reported as collected.
- We used our professional judgment to select a sample of five months during our audit period for a review of retiree health insurance payments. We selected four months in 2018-19 (September and December 2018 and March and June 2019) and one month in 2019-20 (July 2019) and reviewed all payments received as shown on the Treasurer's spreadsheet and the bank statements to determine whether they were deposited intact and in a timely manner.
- We obtained a list of all 174 retirees who were provided coverage under the District's health insurance plan as of August 1, 2019 and compared the names, Social Security numbers and dates of birth to the Social Security Administration's database to determine whether any individuals were deceased.

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We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted to the District's website for public review.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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## Contact

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