Patchogue-Medford Union Free School District

Review of Benefits

August 2016

CERINI & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 2016

The Board of Education
Patchogue-Medford Union Free School District
241 South Ocean Avenue
Patchogue, NY 11772

Board of Education:

We have been retained to function as the internal auditor for the Patchogue-Medford Union Free School District (hereinafter, "the District"). Our responsibility is to assess the internal control system in place for the accounting function within the District, and to make recommendations to improve upon certain 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 (i.e., current employees, including those on workers' compensation or unpaid leave, terminated employees who have elected COBRA, certain employees on Leave of Absence (LOA), surviving spouses, vested employees, the spouse/family of a recently deceased employee, and retirees). 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 (very few employees are enrolled in this insurance 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:

As part of this testing, we selected a sample of forty individuals from the May 2016 NYSHIP invoice, and ten individuals from May 2016 Emblem Health invoice, and performed procedures to determine that:

- each individual was eligible for benefits;
- the employee contribution rates were accurate according to the bargaining unit contracts;
- coverage was not waived;
- the employee elected the type of coverage being provided; and
- the employee submitted the required documentation necessary to receive coverage.

We then selected a sample of the various individuals receiving health insurance benefits to verify that 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. This included forty retirees, thirty-three retirees receiving the reimbursement for Medicare Part B payments, ten surviving spouses, two vested employees, one recently deceased employee, five employees on Leave of Absence (LOA), and three former employees receiving benefits under COBRA.

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Lastly, we selected twenty-five employees who declined health benefits and performed testing of employees to ensure that the District's buy-back expenditures were accurate and in accordance with the contracts and policies approved by the Board, and to verify there were no instances of double-dipping occurring by which an employee would receive buy-back payments and health coverage for the same time periods.

CONCLUSION:

We noted the District has implemented sufficient internal controls to ensure that health benefits expenditures are appropriate, and that health benefits are provided in accordance with District contracts and policies. The detailed results of our review are included below.

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. When we reviewed the benefits process, we noted that the District has sufficiently separated duties, with other departments working in conjunction with the benefits department during this process. We also noted that the District has been preparing formal documented procedures and has created a back-up position that has been trained to handle the functions performed by the Benefits Account Clerk. **No exceptions were noted**.

ACTIVE EMPLOYEES:

Invoice Charges and Employee Payments: Using the May 2016 invoices, we haphazardly selected a sample of forty individuals who elected health coverage through NYSHIP, and 10 individuals who elected health coverage through Emblem Health. We then traced each selection to the Payroll Deduction Register Report in Finance Manager for the month of May 2016, to verify that the person was a current paid employee, and if not, verified whether he or she was making payments for their portion of the elected health coverage, or was otherwise eligible for benefits through COBRA, or as an employee on unpaid leave or worker's compensation. We verified that the District was billed the correct rate for the enrollee selected and that the employee did not elect to waive coverage. In addition, we examined the election forms to verify the employee elected the coverage he or she was actually receiving and confirmed the required coverage documentation was maintained by the District. Lastly, we verified 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 Account Clerk calculates the new benefits deduction amount, and Payroll then inputs into the payroll system in Finance Manager. Once all the changes are entered, the Benefits Account Clerk separately calculates the deductions and compares the reconciliation report from NYBEAS against the deduction report from Finance Manager, and confirms that the new deduction amounts are correct. Any discrepancies would be communicated to payroll to

make the necessary corrections. From our review of the employees receiving health benefits, we confirmed that employees are contributing the correct benefits deductions, and that the District is billed correctly. **No exceptions were noted**.

Proof of Eligibility: The District started requiring employees to submit proof of eligibility (e.g. marriage and/or birth certificate) when requesting family coverage within the past five years. 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. These practices apply to new hires electing family coverage, or current employees requesting to change their current coverage from individual to family.

> **Issue #1:** We noted one instance in which an employee did not sign their enrollment form after a change in enrollment occurred (the change in coverage was correctly implemented). The employee added a child to their health insurance on 9/19/2003, however, the NYSHIP enrollment form was not signed.
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> **Risk:** Changes in benefits may not be properly documented.
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> **Level:** Low
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> **Recommendation:** We recommend that the District ensure employees complete and sign the NYSHIP enrollment form when any changes are requested.
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> ***Management's Response***: *The District's practice for many years has been to ensure that all new employees complete an enrollment form and that those employees requesting changes also update their enrollment form. The exception noted dated back to the 2003 school year. Since that time, the current procedure has been strictly enforced. We will continue to strictly enforce this practice prospectively.*
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> **Auditor's Comment**: During our testing, there were thirteen employee files that did not contain the required documents to support their change in coverage, such as a marriage certificate, or birth certificate(s), or both. These employees were hired before the District required such documentation. The District is currently requiring proof of family coverage, and we commend the District's efforts to ensure all benefits documentation are properly completed and are on file so that there are no questions about the intentions or actions of an employee. In addition, NYSHIP recently conducted their own Dependent Eligibility Verification audit that required participants to provide proof of family coverage. Any participants that do not meet the requirements for family coverage will automatically be switched to single coverage.

RETIREE TESTING:

We haphazardly selected from the May 2016 invoice a sample of forty retired employees who pay for their health benefits directly to the District and verified the election forms (e.g., individual or family coverage) agree with the coverage type the retiree is receiving, and that the retirees are making the correct payments to the District. At the time of our review, no retired employees elected to have their contribution deducted directly from their pension. As part of our testing, we

verified that the employee completed the appropriate number of required years of service to be entitled to receive retiree benefits. In addition, we confirmed each selection's employment and retirement date. Lastly, we verified that 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 are required to remit payment on a monthly basis. We verified that the District is properly tracking amounts owed by the retirees, and they are properly posting the payments. **No exceptions were noted**.

The District is informed by NYSHIP on a monthly basis of any retiree who is becoming eligible to receive Medicare coverage. The Benefits Account Clerk notifies the retiree of the upcoming eligibility via mail, and requests that they attest that they would not be receiving Medicare Part B reimbursement from another source. The letters need to be signed and returned to the District on an annual basis. Medicare reimbursements are disbursed quarterly during the year. If the retiree is receiving family coverage, the District is responsible for reimbursing the Medicare 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. Our testing included verifying that the District received signed attestations from those retirees in our sample who were Medicare eligible. We verified that the District received the attestations for the Medicare Part B reimbursement prior to remitting the payment to the retiree, and that the Medicare reimbursements paid in November 2015 were correct. **No exceptions were noted**.

COBRA TESTING:

The District had three individuals who were listed as receiving COBRA benefits on the May 2016 NYSHIP invoice. When an individual is terminated, the Benefits Account Clerk sends a letter to the employee indicating the process for continuing coverage through COBRA, along with the amount of the premium. We noted that the Accounts Receivable clerk maintains a spreadsheet of all payments, and confirms that the payments are received by reviewing the cash receipts journal in Finance Manager. This spreadsheet is sent to the Benefits Account Clerk monthly. If payments are not received, the Benefits Account Clerk will follow up with the individual, and if no response is received within two months, the individual will be removed from the insurance. Our testing included examining the election form to ensure the employee elected to maintain health insurance coverage under COBRA. In addition, we obtained the check payment history and cash receipts journal in Finance Manager to ensure each individual selection was making the correct payment. **No exceptions were noted**.

SURVIVING SPOUSE, VESTED EMPLOYEES, & EXTENDED BENEFITS TESTING:

When an employee of the District passes away, the District provides their surviving spouse with health insurance at no cost for the three subsequent months following the death, as per NYSHIP regulations (this is referred to as extended benefits). We reviewed the NYSHIP invoice and selected the one employee receiving extended benefits to verify the District was correctly providing benefits. Our testing of extended benefits included confirming the employee was recently deceased, and the type of coverage provided to the deceased spouse was accurate.

At the end of the three months, the spouse has the option of continuing to receive NYSHIP Insurance through the District. All spouses that elect to continue coverage through the District must make monthly payments of the entire cost of the benefits provided to them. We reviewed the NYSHIP invoice and selected ten employees receiving benefits as a surviving spouse to verify

the District was providing the proper coverage, and the correct amounts were being paid for the elected coverage. Our testing of surviving spouses included verifying:

- the surviving spouse was Medicare eligible;
- the surviving spouse receiving coverage was placed in the correct category;
- the individual provided proof of the deceased employee; and
- the surviving spouse is making payments for the correct amount to continue their coverage.

An enrolled employee who terminates employment before retirement age is eligible to continue coverage under NYSHIP as a vestee. We reviewed the NYSHIP invoice and selected the two employees receiving benefits as a vested employee to verify the District was correctly providing benefits. Our testing of vested employees included confirming:

- the employee worked more than five years in the district; and
- the employee elected to continue coverage.

No exceptions were noted on testing of extended benefits, surviving spouses, or vested employees.

LEAVE OF ABSENCE (LOA) TESTING:

The District allows employees to take a leave of absence for a number of reasons, including maternity leave and health issues. We obtained a list of employees who requested Leave of Absence during the 2015-2016 school year, and selected five employees on a Leave of Absence. We then reviewed the May 2016 NYSHIP invoice to determine if the employees were listed as receiving health benefits. To verify the validity and accuracy of the benefit payments made by these employees, our testing included:

- examining personnel files to ensure that they contained appropriate forms and approval for the time off requested by the employee;
- verifying that the dates of the employee's leave of absence were tracked by personnel;
- verifying that payments to continue benefits were received by the District and were recorded in the cash receipts journal in Finance Manager or deducted from payroll; and
- confirming that payments made by employees were for the correct amount during their leave of absence.

Employees that are currently employed by the District and choose to take a leave of absence without pay are responsible for remitting their share of the premium while on FMLA (Family and Medical Leave Act), and then the full cost of the insurance payment once FMLA has ended to receive health insurance benefits. **No exceptions were noted.**

DECLINATION AND BUY-BACK TESTING:

The District offers certain employees a cash payment, or buy-back, if the employee declines enrolling in the NYSHIP health insurance plan (the buy-back varies based on the bargaining unit contract, and the District does not provide a buy-back if the employee's spouse is covered by NYSHIP). Buy-backs are paid in December and June and can be pro-rated by month to the point when the employee discontinues coverage. As part of our testing, we judgmentally

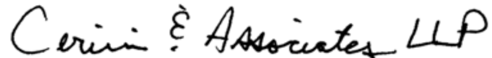
selected 25 employees from the 69 employees receiving the buy-back in June 2016 based on the database maintained by the Benefits Account Clerk. For each employee, we examined the health insurance census to ensure that those employees who elected to waive health insurance coverage were not listed as receiving benefits. In addition, we verified that each employee who waived coverage was receiving the correct buy-back amount per the employee's contract. We also verified that all supporting documentation existed to substantiate that the employee was entitled to receive family coverage. Lastly, we verified that the employees completed and signed the necessary form to waive health benefits coverage. **No exceptions were noted.**

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
Internal Auditors