

INTERNAL AUDITORS' REPORT
Huntington Union Free School District
For the 2012-2013 Fiscal Year



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April 6, 2013

Board of Education and Audit Committee
Huntington Union Free School District
Administrative Offices
50 Tower Street
Huntington Station, New York 11746

To the Members of the Board of Education and Audit Committee:

In accordance with the terms of our engagement with the Huntington Union Free School District we have performed the District's annual risk assessment update as required by Chapter 263 of the Laws of New York of 2005 for the 2012-2013 school year.

Chapter 263 of the Laws of New York of 2005 requires that school districts establish an internal audit function to perform a risk assessment of district operations including, but not limited to, a review of financial policies and procedures and the testing and evaluation of district internal controls.

Internal controls are procedures put in place by management to help achieve the stated mission and objectives of an organization. The design and implementation of internal controls is the responsibility of management. These control procedures help promote efficiency in operations, reduce risk of loss and ensure reliability of financial data. In addition, internal controls are designed to provide reasonable, but not absolute, assurance regarding the achievement of the entity's objective to promote compliance with established policy, laws and regulations. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits derived. There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system such as errors, mistakes of judgment, carelessness, collusion or other factors.

Annual Risk Assessment

Risk assessment is the entity's identification and analysis of relevant risk to the achievement of its objectives, forming a basis for determining how the risks should be managed. It should identify risk and analyze the likelihood of occurrence and impact. This process allows the Board of Education to determine how much risk it is willing to accept and to set priorities accordingly. The assessment should focus on what can go wrong that would prevent the achievement of the objectives, the likelihood and consequences of something going wrong, and what actions can be taken to minimize the potential of occurrence.

In assessing risk, we consider both inherent risks: the risk associated with a system based upon the nature of the transactions processed by that system (i.e. quantity, complexity, value, etc.) and control risk: the risk that the system of internal control is not adequately designed to prevent or detect errors or irregularities.

Risk assessment is an ongoing internal audit function. This process includes a review of policies, procedures and controls that the District has in place to prevent errors, detect fraud, safeguard District assets and ensure that financial reporting is accurate. Interviews and checklists are utilized to confirm our understanding of the control process and assess changes in risk, with an emphasis on increased risks related to changes in key personnel, changes in policies, laws and regulations and new policies, laws and regulations. The scope of our risk assessment engagement did not include testing the operating effectiveness of such controls. Risk assessments of key operational and financial areas are documented in a matrix to facilitate monitoring of risks on an annual basis.

Our procedures were not designed to express an opinion on the internal controls of the District, and we do not express such an opinion. Because of inherent limitations of any internal control, errors or fraud may occur and not be detected by internal controls. Also, projections of an evaluation of internal controls to future periods are subject to the risk that procedures may become inadequate because of changes in conditions.

The key operational and financial areas include the following general categories:

- Governance and Planning
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Special Education
- Payroll
- Employee and Retiree Benefits
- Human Resources
- Purchasing and Expenditures
- Facilities
- Fixed Assets
- Safety and Security
- Food Service
- Extraclassroom Activity Fund
- Student Related Data
- Information Systems

The risk assessment matrix was reviewed by the District's audit committee in November 2012. Upon review of the risk assessment matrix, the audit committee directed us to perform detailed testing/evaluation procedures in one or more key areas.

Detailed Testing/Evaluation Procedures

As a result of the risk assessment process, with the assistance of the District's audit committee and management, tests have been designed to evaluate the effectiveness of existing internal controls and their implementation in the following area(s):

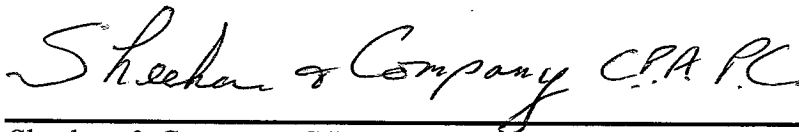
- Employee Health Insurance Benefits
- Retiree Health Insurance Benefits

We have performed the testing and evaluation for the operational/financial area(s) listed above. The results of this testing and evaluation, as well as our findings, recommendations and management's response are reported in the following section. As part of the ongoing internal audit function, we will continue to assess and monitor the implementation of any corrective actions deemed necessary.

This report is intended solely for the use and information of the Board of Education, Audit Committee and management of the Huntington Union Free School District and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you as internal auditors and thank the District's management and staff for their assistance and cooperation.

Very truly yours,



Sheehan & Company, C.P.A., P.C.
Brightwaters, New York
May 16, 2013

Employee and Retiree Health Insurance Benefits

Background

Employee and retiree health insurance benefits represent a significant and ever-accelerating portion of a school district's annual budget. Accordingly, a district's internal controls related to the administration of health insurance benefits are an important element in controlling a significant cost center in the district's budget.

An effective system of internal control over employee health insurance benefits ensures that the district pays health insurance premiums only for those employees and their dependents who are eligible for coverage. District-wide policies, collective bargaining agreements, and individual employee contracts should stipulate each position's fringe benefits, including health insurance.

Effective internal controls also provide for an adequate separation of duties, so that no one person controls most or all phases of a transaction and the work of one employee is routinely verified in the course of another's regular duties. Where it is not practicable to segregate duties, the Board should provide for compensating controls, such as routine managerial review of the employee's work. Similarly, the computerized environment should preserve the segregation of duties by limiting employees' access to only those functions for which they are responsible.

Because health insurance expenditures comprise a significant portion of school district budgets, it is important that districts implement strategies that seek to maximize cost savings, while ensuring that their health insurance plans provide the needed coverage for their employees. It is essential that districts monitor their costs and implement savings practices so that health insurance expenditures remain manageable and within budgeted amounts.

Some school districts offer employees the option of a cash payment in lieu of health insurance, or opt-out, when employees provide evidence of alternative coverage. Typically, opt-out amounts are much less than the health insurance premiums that would otherwise have been paid. In addition, employees receiving this payment are increasing their overall compensation in lieu of a benefit they do not need. As with all fringe benefits, this benefit must be clearly defined and authorized by the Board.

Many school districts offer employees the option to receive health insurance coverage as part of their retirement benefits package. They may also provide for a continuation of coverage for surviving spouses and/or dependents for a period of time after the eligible retiree dies. Districts may or may not require the retiree to contribute to the cost of the health insurance coverage. An effective system of internal control over retiree health insurance benefits ensures that the district pays health insurance premiums only for those retirees and their dependents who are eligible for coverage. Effective controls should include monitoring the coverage status of retirees and their eligible dependents through routine communication, either by personal contact or by correspondence that would determine their continued eligibility. This process should also include inquiry into whether the retirees and their dependents are still living.

If the district requires that retirees contribute towards the cost of health insurance effective controls should ensure that the correct amounts are being deducted from retirement checks or, in the case of direct payments, the correct amounts are being charged and that receipts of payment are monitored.

Employee Health Insurance Benefits

Employee Health Insurance Benefits - Overview of Procedures Currently in Place

Contractual Obligation

The Huntington Union Free School District's obligation to provide health insurance to employees and retirees has been established through collective bargaining agreements, Board-approved employment contracts and, in the case of non-bargaining unit staff, Board policy. In accordance with these agreements, contracts and policy, the District offers several coverage options to all full-time active employees and is responsible for funding, in most cases, 85 percent of the cost of employee health insurance premiums. In addition to providing health insurance coverage to active employees and eligible retirees, the District is required to "vest" individuals who have met the requirements of the Department of Civil Service and are no longer employed by the District. Vestee's are eligible to continue health insurance coverage at 100% of the cost until they are eligible to retire. Vestee's make direct reimbursement to the District on a monthly basis.

The following is a summary of the District's obligation for contributions towards health insurance premiums by employee category (under current contract):

Health Insurance Benefit Provisions By Contract	Active Employees				
	District Contribution		Employee Contribution		Buyback Option (A)
	Individual Plan	Family Plan	Individual Plan	Family Plan	
Superintendent	80%	80%	20%	20%	50% (B)
Teachers	85%	85%	15%	15%	50%
Administrators	85%	85%	15%	15%	50%
Chairpersons	85%	85%	15%	15%	50%
Clerical	85%	85%	15%	15%	50%
Food Service	70%	60%	30%	40%	N/A
Nurses	85%	85%	15%	15%	50% (C)
Aides, Monitors and Teaching Assistants	85%	70%	15%	30%	N/A
Hallway Assistants	85%	70%	15%	30%	50%
Security	85%	70%	15%	30%	\$2,000/yr (D)
Custodians	85%	85%	15%	15%	50%
Non-contractual (non-bargaining unit staff)	85%	85%	15%	15%	50%

(A) Payment to employee is equal to 50% of the District's share of the annual premium

(B) Superintendent is only eligible for buyback of individual coverage

(C) Eligible only if the participant had coverage for at least 1 year prior to July 2001

(D) Eligible only if the participant had coverage for at least 1 year prior to September 2004

The District provides health insurance to its employees through the New York State Health Insurance Program (NYSHIP). The following is a summary of the District's enrollees in NYSHIP. This summary is based on the NYSHIP invoice for the month of February 2013.

Category of Enrollee				Number		
				Enrolled		
Active	Individual			156		
Active	Family			360	Total Number of Active Employees	516
COBRA	Individual			6		
COBRA	Family			3		
COBRA	Family	with 1 Medicare Eligible		1	Total Number of COBRA Enrollees	10
Retiree	Individual	85/50 & 85/85		12		
Retiree	Individual	A/Pay		8		
Retiree	Family	90/50		1		
Retiree	Family	85/85		13		
Retiree	Family	A/Pay		6		
Retiree	Individual	with 1 Medicare Eligible	85/85 & 85/50	72		
Retiree	Individual	with 1 Medicare Eligible	90/90 & 90/85	7		
Retiree	Individual	with 1 Medicare Eligible	95/95 & 95/85	23		
Retiree	Individual	with 1 Medicare Eligible	A/Pay	215		
Retiree	Family	with 1 Medicare Eligible	100/75	3		
Retiree	Family	with 1 Medicare Eligible	85/85	16		
Retiree	Family	with 1 Medicare Eligible	90/85	1		
Retiree	Family	with 1 Medicare Eligible	100/90	2		
Retiree	Family	with 1 Medicare Eligible	95/95	1		
Retiree	Family	with 1 Medicare Eligible	A/Pay	8		
Retiree	Family	with 2 Medicare Eligible	85/50	7		
Retiree	Family	with 2 Medicare Eligible	85/85	62		
Retiree	Family	with 2 Medicare Eligible	100/75	5		
Retiree	Family	with 2 Medicare Eligible	90/85	3		
Retiree	Family	with 2 Medicare Eligible	95/85	21		
Retiree	Family	with 2 Medicare Eligible	100/90	62		
Retiree	Family	with 2 Medicare Eligible	95/95	1		
Retiree	Family	with 2 Medicare Eligible	A/Pay	58		
Retiree	Medicare D			1	Total Number of Retirees	608
Survivor	Individual			1		
Survivor	Individual	with 1 Medicare Eligible		38	Total Number of Survivors	39
Vested	Individual			2		
Vested	Family			5	Total Number of Vested Enrollees	7
					Total of All Enrollees	1,180

Employee health insurance benefits are administered by Lori Brett, senior account clerk/benefits administrator, in the District's payroll department. Lori's work is supervised by Cathy Boody, the District's payroll supervisor. With regard to health insurance, Lori's general duties include the enrollment of all employees, retirees and dependents in the New York State Health Insurance Program (NYSHIP), monitoring and recording changes of status, ensuring that benefits for each employee group and retirees are in accordance with their applicable contracts, deducting the appropriate amounts from paychecks for employee contributions, collecting the appropriate contributions from retirees, their survivors, as well as COBRA and vested enrollees, adjusting deductions/contributions for rate changes, reconciling enrollee records to monthly invoices for health insurance for approximately 1,200 enrollees, and approving the monthly invoices (more than \$1.1 million per month) for payment.

Procedures Currently in Place

Enrollment and Maintenance of Changes in Status

The enrollment of a new employee (and dependents, if applicable) begins with the employee completing and submitting a form called "Empire Health Insurance Form". This form includes the employee's (and dependents') name address, social security number, date of birth, date of hire, job title, tier number, and effective date of coverage. This form also includes a section to document changes in status such as the addition/deletion of dependents, marital status, COBRA, vesting, retiree (and survivor) status, etc. Verification of marriage and children's birth certificates must be submitted for family coverage (as per Civil Service requirements). And, lastly, this form includes a section to document other information, such as the setup of payroll deductions in Finance Manager, enrollment and entry of data into the New York Benefits Eligibility and Accounting System (NYBEAS), exercise of the insurance buyback option, etc. This form is maintained and updated by the payroll department throughout the employee's active employment. A new form is completed upon retirement.

Upon completion and submission of the Empire Health Insurance Form reference is made to the appropriate employee contract/bargaining agreement to determine the appropriate benefit provisions and employee/retiree contributions. The appropriate payroll deductions (for employees) are calculated and entered into Finance Manager. The calculated deduction is based on the annual amount to be contributed by the employee, divided by the appropriate number of bi-weekly payrolls. At the start of each year, a spreadsheet is setup (by the payroll department) with the employee contribution percentage for each contractual unit and the resulting payroll deduction based on the annual rates for each type of coverage. The following is the 2013 rate schedule:

Empire Health Insurance Rates: - 1/1/13						
Huntington Union Free School District						
Individual Coverage: 1/1/13						
Unit	Old Rate Monthly	New Rate Monthly	Old Pay Deduction	New Pay Deduction	Percent	Effective Date
Administrator, Chairperson, Clerical, Custodian, Hall, Non-Contractual, Nurse, Security & Teachers	\$712.75	\$767.98	\$53.46	\$57.60	15%	1/1/13
Aides, Monitors, T/A's (all) and Food Service (hired before 7/1/87) (20) Paychecks	\$712.75	\$767.98	\$64.15	\$69.12	15%	1/1/13
Food Service (hired after 7/1/87) (20) Paychecks	\$712.75	\$767.98	\$128.30	\$138.23	30%	1/1/13
Family Coverage: 1/1/13						
Unit	Old Rate Monthly	New Rate Monthly	Old Pay Deduction	New Pay Deduction	Percent	Effective Date
Administrator, Chairperson, Clerical, Custodian, Non-Contractual, Nurse & Teachers	\$1,562.80	\$1,686.56	\$117.21	\$126.49	15%	1/1/13
Aides, Monitors, & T/A's (20) Paychecks	\$1,562.80	\$1,686.56	\$281.30	\$303.58	30%	1/1/13
Hallway, Assistants & Security	\$1,562.80	\$1,686.56	\$234.42	\$252.99	30%	1/1/13
Food Service (hired before 7/1/87) (20) Paychecks	\$1,562.80	\$1,686.56	\$140.65	\$151.79	15%	1/1/13
Food Service (hired after 7/1/87) (20) Paychecks	\$1,562.80	\$1,686.56	\$375.07	\$404.77	40%	1/1/13

The new enrollee will also be entered into NYBEAS. NYBEAS maintains an online administration system to provide better integration between personnel, benefits, retirement and payroll systems. For retirees from whom contributions are required, NYBEAS can facilitate the collection of contributions from retirees (through the retirement systems) by deducting the contribution from the retiree's pension check. This option decreases the burden on the District of collecting the monthly contributions from retirees.

As an employee's (or dependent's) status changes, it is their responsibility to report the change to the payroll department so that appropriate changes can be recorded in Finance Manager and NYBEAS.

The payroll department supervisor and assistant, Cathy Boody and Lori Brett, have developed a comprehensive Excel spreadsheet to keep track of all of the District's enrollees in NYSHIP. The spreadsheet accounts for the number of enrollees by category, coverage code, and contractual contribution rates.

The enrollee category codes are:

- PA - Active employee
- PR - Retiree
- PS - Survivor
- PC - COBRA
- PV - Vested

The coverage codes are:

- 1 - Individual
- 4 - Family
- A - Individual with 1 eligible for Medicare
- B - Family with 1 eligible for Medicare
- C - Family with 2 eligible for Medicare
- D - Medicare D

As an enrollee's (and dependent's) status changes and is reported to the payroll department, through either the "Empire Health Insurance Form" or from NYSHIP reports, the changes are entered onto the monthly "add/delete" sheet. This sheet is used to record/accumulate the additions and deletions for enrollees in each category and coverage code. Each month the total number of additions and deletions for each category is entered into the Excel spreadsheet. By indicating the number of enrollees by category at the beginning of the month (from the prior month's NYSHIP invoice), then applying additions and deletions (as reported during the month) to each category on the spreadsheet, the new number of enrollees, by category and coverage codes, is automatically computed. At the beginning of each year, the rates for each category and type of coverage are entered into the spreadsheet.

Reconciliation of Monthly NYSHIP Invoice

NYSHIP billings for health insurance are received on a monthly basis. Insurance coverage is billed one month in advance. NYSHIP's monthly invoice breaks out the charges by showing the total number of enrollees for each category and coverage code multiplied by the applicable rate, and the resulting total charge for that particular category/coverage.

The reconciliation process is facilitated by the Excel spreadsheet that is maintained by the payroll department. As this spreadsheet reflects the numbers of enrollees by category and coverage codes, incorporates the applicable rates for each category/coverage code, and is edited for status changes throughout each month, it should reflect the correct total monthly cost and be in agreement with the monthly invoice from NYSHIP. It should be noted that a monthly administration fee is charged by NYSHIP. The administration fee must be entered into the Excel spreadsheet to tie into the total amount on NYSHIP's invoice.

The following is a portion (for active employees) of the Excel spreadsheet used to reconcile the District's records to the monthly invoice from NYSHIP:

Hospitalization Cost - Active Employees								
Health Insurance Coverage for: February-13								
Payroll Month of: January-13								
Code	Title		#Fwd.	Add	Delete	Total	Cost	Total Cost
Individual								
PA7-1	Instructional	15%	73			73	\$767.98	\$56,062.54
PA7-1	AMS/Hall	15%	53	1		54	\$767.98	\$41,470.92
PA7-1	CLK/CUS/NON	15%	25	1		26	\$767.98	\$19,967.48
PA7-1	Fsw B/87	15%	0			0	\$767.98	\$0.00
PA7-1	Fsw A/87	35%	3			3	\$767.98	\$2,303.94
	Totals		154	2	0	156		\$119,804.88
PA7-1	ADJ.			1		1	\$712.75	\$712.75
PA7-1	ADJ.		0	2		2	\$767.98	\$1,535.96
	ADJ.					0	\$0.00	\$0.00
						0		\$122,053.59
Family								
PA7-4	Instructional	15%	230	1		231	\$1,686.56	\$389,595.36
PA7-4	AMS/Hall	30%	53		1	52	\$1,686.56	\$87,701.12
PA7-4	CLK/CUS/NON	15%	72	1	1	72	\$1,686.56	\$121,432.32
PA7-4	SLF	15%	0			0	\$1,686.56	\$0.00
PA7-4	SLF '87	40%	5			5	\$1,686.56	\$8,432.80
	Totals		360	2	2	360		\$607,161.60
Adjustments								
PA7-4	ADJ.		0	1	2	(1)	\$1,686.56	(\$1,686.56)
						0	\$1,330.93	\$0.00
PA7-4	ADJ.			1	1	0	\$1,562.80	\$0.00
						0		\$605,475.04
Combined Total:		To be tied into Empire Bill Total for PA7						\$727,528.63

Payment of NYSHIP's Monthly Invoice

Upon completion of the invoice reconciliation, trial balance reports are obtained from the District Treasurer, Jill Miranda, to facilitate preparation of "payment sheets". These payment sheets are prepared to request the payment of the NYSHIP invoice from the Trust and Agency Fund, request the appropriate contribution from the School Lunch Fund to the Trust and Agency Fund, and request the appropriate contribution from the General Fund to the Trust and Agency Fund. The payment sheets also indicate the account codes to be charged in each fund. The completed payment sheets are submitted to the Assistant Superintendent for Business, Sam Gergis, for approval. Upon approval, the payment sheets are forwarded to the purchasing department for processing and the NYSHIP invoice is forwarded to the District Treasurer to wire the funds to NYSHIP.

Reconciliation of Enrollees to Civil Service Records

On a quarterly basis, a report is received from Civil Service reporting employees and retirees enrolled for health insurance coverage. This report is reconciled to the District's files for active employees and retirees.

Buyback of Insurance Coverage

Employees are given the option of dropping their health insurance coverage or changing their coverage from family to individual coverage. The exercise of this option is subject to the rules and regulations of the District's health insurance provider. An employee who exercises this option will receive a payment equal to 50 percent of the amount of savings realized by the District. Payments under this option are made in two equal installments, in December and June.

If an employee elects to exercise this option, this change of status will be documented on the employee's Empire Health Insurance Form, a buyback form will be completed by the employee, payroll deductions will be appropriately adjusted in Finance Manager, and the appropriate changes of status will be entered in NYBEAS and the Excel spreadsheet maintained by the payroll department. In addition, the opting employee's identifying data will be entered into the "Health Insurance Buyback List", an Excel spreadsheet summary control.

In accordance with NYSHIP's rules there will no longer be a buyback for employees whose spouse also has coverage through the Empire Plan.

Internal Audit Objective and Procedures

Objective

Review the District's procedures for the administration of health insurance benefits for both active employees and retirees. The administration of health insurance benefits includes the enrollment of employees and retirees in the NYSHIP, providing for the appropriate contributions to the premiums in accordance with contractual provisions by payroll deduction (active employees) or pension deduction/direct payment (retirees), maintenance of the status of enrollees, reconciliation of the monthly health insurance invoice to the District's records, and payment of the monthly premium.

Procedures:

- Interview the personnel responsible for the administration of the District's health insurance benefits, obtain an understanding of the procedures and controls, and document a summary of those procedures.
 - See Employee Health Insurance Benefits - Overview of Procedures Currently in Place
 - See Retiree Health Insurance Benefits - Overview of Procedures Currently in Place
- Determine if an adequate, effective system is in place to document 1) the status of each employee/retiree, 2) the benefits to which the individual is contractually entitled, 3) the contribution rate for which the individual is contractually obligated, and 4) the method by which the contribution to premium is to be made (payroll deduction, direct payment, use of accrued sick time, deduction from pension check).
 - See Employee Health Insurance Benefits - Overview of Procedures Currently in Place
 - See Retiree Health Insurance Benefits - Overview of Procedures Currently in Place
- Determine that the monthly invoice for health insurance premiums is reconciled to the District's records to be sure that the correct number of enrollees are billed, for the correct types of coverage, at the correct rates.
 - See Employee Health Insurance Benefits - Overview of Procedures Currently in Place
 - We obtained the District's reconciliation report for the month of January 2013 (which is for health insurance coverage for the month of February 2013, as the premiums are billed and paid for one month in advance). We traced every enrollee on the District's spreadsheet reconciliation to determine that the correct number of enrollees are included in the invoice, for the correct types of coverage, at the correct rates. The reconciliation accounted for all enrollees from the previous month (which agreed to the prior month's invoice), showed all changes for the month (additions and deletions for each category of coverage), and the new totals of enrollees in each category of

- coverage. We determined that the correct number of enrollees were included in the invoice, for the correct types of coverage, at the correct rates. The total of the health insurance invoice for the month of February was \$1,155,241.07, plus an administrative charge of \$2,494.52.
- We did not find any errors or omissions in our test of the reconciliation.
 - Perform a test to determine that no employee who opted for "buyback of insurance coverage" is receiving that health insurance coverage for which the buyback payment was made.
 - From the "Health Insurance Buyback List", an Excel spreadsheet maintained to keep track of those employees who have opted for the buyback option, we randomly selected 10 individuals from a total population of approximately 150. For the 10 selected individuals, we examined the "opt-out form" signed by the employee. We then searched the listing of enrollees in the Empire Plan for the month of January to determine that the individuals who opted out were not receiving the insurance coverage for which they were given buyback payments from the District.
 - We did not find any exceptions in our testing.
 - Perform a test of active employees to determine that each employee is enrolled for the health insurance benefits for which they are entitled as per their respective contracts, that the correct payroll deduction is set up in Finance Manager (based upon the contractually required percentage of contribution to premium), and that they are enrolled in NYSHIP for the correct type of health insurance coverage.
 - From the NYSHIP report of current enrollees, we randomly selected a sample of 10 active employees. For each selected employee we 1) determined the employee type (teacher, administrator, food service, clerical, etc.) by reference to the NYSHIP enrollment form, 2) determined the contractually required percentage of contribution to premium by reference to the appropriate contract, 3) determined that the correct payroll deduction was being withheld from the employee's paycheck, and 4) determined that the type of coverage (individual, family) indicated on the NYSHIP invoice agreed with the type of coverage indicated on the employee's enrollment form.
 - We did not find any exceptions in our testing.

Retiree Health Insurance Benefits

Retiree Health Insurance Benefits - Overview of Procedures Currently in Place

Contractual Obligation

The Huntington Union Free School District's obligation to provide health insurance to employees and retirees has been established through collective bargaining agreements, Board-approved employment contracts and, in the case of non-bargaining unit staff, Board policy. In accordance with these agreements, contracts and policy, the District offers retiree health insurance coverage to teachers, administrators, non-contractual employees, hallway assistants, clericals, custodians, aides, teachers' assistants and nurses who are eligible to retire and have been employed by the District for at least 5 years.

The following is a summary of the District's obligation for contributions towards retiree health insurance premiums by employee category (under current contract):

Health Insurance Benefit Provisions By Contract	Retirees				
	District Contribution		Retiree Contribution		
	Individual Plan	Family Plan	Individual Plan	Family Plan	
Superintendent	80%	80%	20%	20%	(A)
Teachers	85%	85%	15%	15%	(A)
Administrators	85%	85%	15%	15%	(A)
Chairpersons	85%	85%	15%	15%	(A)
Clerical	85%	85%	15%	15%	(A)
Food Service (hourly employees- more than 30 hours)	70%	60%	30%	40%	(A)
Food Service (hired prior to July 1, 1987)	85%	85%	15%	15%	(A)
Nurses	85%	85%	15%	15%	(A)
Aides, Monitors and Teaching Assistants	85%	70%	15%	30%	(A)
Hallway and Study Hall	85%	70%	15%	30%	(A)
Security	85%	70%	15%	30%	(A)
Custodians	85%	85%	15%	15%	(A)
Non-contractual	85%	85%	15%	15%	(A)

(A) The District pays the same percentage as was paid during the retiree's last year of employment.

Procedures Currently in Place

Enrollment and Maintenance of Changes in Status

The enrollment and maintenance of changes in status for retirees is essentially the same process as for active employees as outlined earlier in this report. The "Empire Health Insurance Form" follows an active employee into retirement. Accordingly, a new form is completed to record a retiree's status and changes throughout retirement. The form will be updated to indicate changes in type of coverage, dependents, survivor (upon death), required contribution towards premium cost, how the payment will be made, etc.

Upon being notified of an employee's retirement, reference is made to the appropriate employee contract/bargaining agreement to determine the appropriate benefit provisions and retiree contributions.

As a retiree's (or dependent's) status changes, it is their responsibility to report the change to the payroll department so that appropriate changes can be recorded in Finance Manager and NYBEAS.

The procedures for maintaining changes in status, reconciling the monthly NYSHIP invoice, and payment of the invoice are the same as those for active employees as summarized earlier in this report.

Retiree's Contribution Towards Insurance Premiums

If a retiree is required to contribute towards the cost of the health insurance premiums, he/she has three options through which to make that contribution:

- Deduction from "bank" of accrued sick time (This option is available for members of the Employee Retirement System (ERS) only)

Over the course of one's employment, a significant amount of unused sick time may be accumulated. At retirement, the accrued sick time may be converted to a cash dollar amount. This bank of accrued sick time may be drawn down by applying the amounts necessary to cover the monthly contribution. An Access retiree database is maintained by the payroll department to keep track of all retiree information and their method of payment. ERS retirees who have unused sick time available use this method of payment and are charged each month against the remaining balance of accrued sick time.

Reports of accrued sick time balances are printed and reviewed periodically to determine that a retiree's remaining balance is sufficient. As a retiree's balance of accrued sick time runs out a letter is sent to the retiree advising him/her of the options available for future payments. If the retiree is Medicare eligible, the premium is reduced by the Medicare reimbursement. If a balance is due to the retiree, it will be paid at the end of the calendar year. If the cost is greater than the Medicare reimbursement, the retiree will make a direct payment to the District. Otherwise, the retiree may have the payment deducted from his/her monthly pension check via

NYBEAS, or make direct payment to the District. Upon death of a retiree, any remaining accrued sick time balance will expire. It may not be used by the surviving spouse to make premium payments.

- Direct payment to the District

If a retiree elects to make payment directly to the District, a letter is sent out at the beginning of each year advising the retirees of the amount of their required monthly contributions. No bills are sent to the retirees. Retirees are responsible to send their monthly contributions to the District Treasurer. The District Treasurer maintains an Excel spreadsheet which shows the monthly amounts due from each retiree and documents receipt of the payments. A copy of this report is provided to the payroll department for review. Note: the payroll department indicates that most retirees pay on time. Occasionally, someone will get behind a month or two.

- Deduction from pension check

If a retiree is a member of the New York State Teachers' Retirement System, he/she may elect to have their contribution to the premium deducted from their monthly pension check. This method of payment is administered through NYBEAS. It should be noted that this method eliminates the burden of collection for the District and assures payment of the contribution.

Medicare Part B Reimbursement

Medicare Part B (medical insurance) helps pay for medically necessary doctors' services, outpatient hospital services, home health services and a number of other medical services and supplies that are not covered by the hospital insurance part of Medicare.

Civil Service Law §167-a made Medicare the primary insurer for retirees and their dependents, thus reducing the employer's contribution to NYSHIP. The law modified NYSHIP's health insurance contracts to exclude from NYSHIP coverage those benefits otherwise available to Medicare retirees and their dependents. NYSHIP receives a substantial financial savings to the benefit of New York State and NYSHIP's participating employers. The retirees are required to designate Medicare as their primary insurance and the retirees are required to pay the Medicare Part B premium as well as the full employee contribution required for NYSHIP. This would have made retirees pay more for their coverage than a non-Medicare eligible enrollee. To eliminate this inequity the law provides for the employer to reimburse the Medicare Part B premiums to the Medicare eligible retirees.

NYSHIP requires enrollees and their dependents to have Medicare Part B in effect as soon as they become eligible. Federal law governs when Medicare will provide coverage that is primary to a group health plan such as NYSHIP. A health insurance plan provides "primary coverage" when it is responsible for paying health benefits before any other plan is liable for payment. NYSHIP provides secondary coverage for Medicare eligible enrollees and dependents, whether or not that person is enrolled in Medicare.

The District is required to reimburse enrollees and their dependents for the cost of the Medicare Part B premium charge, including any income related monthly adjustment amount (IRMAA).

Medicare reimbursement is required regardless of the rate of the employer premium contribution. Medicare reimbursement is required in addition to the employer's premium contribution.

NYSHIP allows the District a choice of reimbursement methods:

- Checks may be issued at periodic intervals (at least once a year) to reimburse the total annual Medicare Part B premium
- The Medicare Part B reimbursement may be reduced by the amount of premium contribution required of retirees

The District's policy is to issue reimbursement checks to Medicare eligible retirees once a year, in the month of December. To facilitate the reimbursement process and document eligibility and amounts to be reimbursed, the District mails a letter and "Medicare Reimbursement Worksheet" to each Medicare eligible retiree in the fall of each year. The letter requests that the retiree complete, sign and return the Medicare Reimbursement Worksheet in early November. If the retiree pays an amount higher than the standard amount, i.e. an income related monthly adjustment amount (IRMAA), a copy of the Social Security Statement must be returned to the District as evidence of the higher amount to which the retiree is entitled to reimbursement. Each completed form is reviewed by Lori Brett, who will verify the accuracy of the reimbursement due. Most reimbursements are at the standard Medicare Part B rate. From the completed "Medicare Reimbursement Worksheets" each retiree's Medicare related information is entered in a Medicare Reimbursement file in the accounting module of Finance Manager. There is a second review of all forms to ensure accuracy. The process of receiving/reviewing the forms, updating data in Finance Manager, and performing a second review takes at least one month. Upon completion of this process the forms are forwarded to the purchasing department for the checks to be prepared. The checks and forms are then submitted to the claims auditor for final approval of the payments.

Internal Audit Objective and Procedures

Objective

Review the District's procedures for the administration of health insurance benefits for retirees. The administration of health insurance benefits includes the enrollment of retirees in the NYSHIP, providing for the appropriate contributions to the premiums in accordance with contractual provisions by one of four permissible methods (charging against accrued sick time, deduction from pension check, direct payment, offset against Medicare B reimbursement), maintenance of the status of enrollees, reconciliation of the monthly health insurance invoice to the District's records, and payment of the monthly premium.

Procedures:

- Perform a test of retirees to determine that each retiree is enrolled for the health insurance benefits for which they are entitled as per their respective contracts, that the correct contribution to premium is being made (based upon the contractually required percentage of contribution to premium), and that they are enrolled in NYSHIP for the correct type of health insurance coverage.
 - From the NYSHIP report of current enrollees, we randomly selected a sample of 10 retirees. For each selected retiree we 1) determined the employee type (teacher, administrator, food service, clerical, etc.) by reference to the NYSHIP enrollment form, 2) determined the contractually required percentage of contribution to premium, 3) determined that the correct amount was being charged for the contribution to premium, 4) determined the method of payment (charge against accrued sick time, direct payment, deduction from pension check, offset against Medicare B reimbursement), 5) determined that collection of payments is being monitored, and 6) determined that the type of coverage (individual, family) indicated on the NYSHIP invoice agreed with the type of coverage indicated on the employee's enrollment form.
 - We did not find any exceptions in our testing.
- Perform a test of Medicare eligible retirees to determine that the District has received a Medicare Reimbursement Worksheet, a copy of the retiree's Medicare enrollment card, and a copy of the Social Security Statement (if applicable) to document entitlement to reimbursement and the appropriate amount of reimbursement.
 - For a random sample of ten Medicare eligible retirees we examined the Medicare Reimbursement Worksheet and calculation of reimbursement.
 - We did not find any exceptions in our testing.

- Determine whether the controls include a process to periodically confirm the status of the retirees and their dependents.
 - Currently, there is no process implemented to confirm the status of the retirees and their dependents.

Findings:

1. The District's controls do not include a periodic confirmation process to establish that the status of retirees and dependents have not changed due to circumstances such as death and divorce. In the absence of a confirmation process, the District is at risk for paying health insurance premiums for retirees and spouses/dependents who have passed away, or are no longer eligible for coverage due to divorce or other factors.

Recommendations:

1. Because the District does not have the same regular contact with retirees as it does with active employees, changes in the status of retirees and their dependents could occur without notification to the District. We recommend that the District develop a written policy to periodically monitor the status of all retirees and their spouses/dependents receiving health insurance coverage from the District. It is suggested that the monitoring be done through an annual written confirmation form, requiring all retirees to update their information to verify eligibility. Return of the confirmation should be a requirement to ensure continued coverage. A sample confirmation letter follows on the next page.
2. When contact with a retiree (either through a confirmation form or other means) cannot be made, the District should consider comparing the non-responding retiree's social security number against the Social Security Death Master Files. For a fee, the District can subscribe to the NTIS SSA-DMF Searchable Online Database – U.S. Department of Commerce – National Technical Information Service – to search the database for deceased retirees. The database is at www.ntis.gov/products/ssa-dmf.aspx.

District's Response:

The District is in agreement with the recommendations and will develop a form letter addressed to retirees to update current information and verify their active status. Additionally, any non-responding retiree will be cross-referenced through the aforementioned database no later than December 1st of the school year, should we have no correspondence with the retiree or family.

