

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT  
& SCHOOL ACCOUNTABILITY

# Health Insurance for Retirees

## Limiting the Costs of Providing Benefits

2010-MS-10



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

January 2011

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of 20 school districts, entitled Health Insurance for Retirees. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

## Introduction

### Background

Employees in many school districts (districts) have an option to receive individual or family health insurance coverage as part of their retirement benefits package. Some districts require retirees to contribute toward the cost of their health insurance, while other districts do not require any contributions from retired employees. Retirees who pay part of the cost of their health insurance coverage can make this payment by having the premium cost deducted from their retirement check, periodically paying their portion directly to the district or health insurance provider, or having their portion deducted from a bank of accrued leave time that has been converted to a cash dollar amount. Certain districts' insurance programs also provide for a continuation of coverage for the surviving spouse and/or dependents for a period of time after the eligible individual is deceased. However, in most instances, the surviving spouse and/or dependents must pay 100 percent of the premium.

For fiscal year 2008-09, districts in New York State reported health insurance expenditures of \$3.5 billion, approximately 11 percent of school districts' total reported expenditures of \$30.8 billion for that year. School districts spent \$1 billion, or about 30 percent of their total annual health insurance costs, for retirees and their dependents.

We surveyed 107 districts throughout the State that reported \$75 million or more in annual operating costs. We received survey responses from 61 districts. We found that, on average, about 36 percent of retirees in these 61 districts do not contribute toward the cost of their health insurance coverage. Because spouses and/or dependents do not pay for this benefit while the retiree is alive, there is a risk that they may not notify school officials of the retiree's death, at which time they must begin to pay for their health insurance coverage.

School districts' boards of education are responsible for establishing district policies, including policies that provide for controls over health insurance payments for retirees and dependents. School district administrators are responsible for overseeing daily fiscal operations, including the payment of health insurance invoices.

We examined controls over health insurance payments at 20 of the 107 districts, a sample we judgmentally selected based on survey

response data indicating a high percentage of non-contributing retirees in a school district, 2009 expenditure data reported by school districts,<sup>1</sup> and information we obtained in follow-up phone conversations with district officials. The 20 sampled districts, as shown in the following table, include 16 districts that responded to the survey, and four districts that did not respond.

School District	2009-10 Budgeted Expenditures	2009-10 Health Insurance Expenditures	Percent of Budgeted Expenditures	Total Retirees/ Dependents Receiving Health Insurance <sup>2</sup>
Ithaca CSD	\$98,555,609	\$11,722,803	11.9%	784
Rochester CSD	\$699,403,217	\$65,155,199	9.3%	4,045
Saratoga Springs CSD	\$110,129,655	\$12,675,446	11.5%	829
Lakeland CSD	\$146,525,390	\$16,965,491	11.6%	1,013
Washingtonville CSD	\$81,018,249	\$9,934,194	12.3%	522
Huntington UFSD	\$105,433,070	\$11,001,028	10.4%	653
Westbury UFSD	\$104,906,826	\$9,292,033	8.9%	426
Sachem CSD	\$274,194,940	\$24,427,389	8.9%	1,858
Massapequa UFSD	\$171,715,173	\$12,927,896	7.5%	1,014
Long Beach CSD	\$114,644,697	\$9,903,399	8.6%	751
Lindenhurst UFSD	\$136,423,092	\$12,068,173	8.8%	889
Port Washington UFSD	\$124,640,568	\$12,693,292	10.2%	865
Ramapo CSD	\$120,098,458	\$10,995,909	9.2%	843
Somers CSD	\$79,516,692	\$5,928,771	7.5%	376
Smithtown CSD	\$211,260,000	\$15,363,835	7.3%	1,166
Mamaroneck UFSD	\$120,695,077	\$10,267,086	8.5%	742
Kenmore-Tonawanda UFSD	\$146,776,022	\$7,831,501	5.3%	635
Central Islip UFSD	\$161,298,515	\$14,269,308	8.8%	775
Yonkers CSD	\$487,051,292	\$56,554,921	11.6%	3,567
South Country CSD	\$106,102,996	\$8,742,322	8.2%	669
<b>Total</b>	<b>\$3,600,389,538</b>	<b>\$338,719,996</b>		<b>22,422</b>

## Objective

The objective of our audit was to determine if districts had adequate controls over the payment of health insurance premiums for retirees for the period July 1, 2008 to May 31, 2010. To determine the total amount of overpayments made, we reviewed health insurance invoices back to the date of an individual's death. The audit was designed to answer the following question:

<sup>1</sup> School districts are required to annually report their financial data to the Comptroller's Office in an Annual Update Document.

<sup>2</sup> The number of retirees and dependents receiving health insurance coverage was as of June 2010.

- Have New York State school districts established adequate controls over the payment of health insurance premiums for retirees to ensure that they are not paying premiums for deceased retirees or their dependents?

**Scope and Methodology**

In evaluating the risks associated with monitoring and paying health insurance premiums for retirees, we determined that districts are at highest risk of paying health insurance premiums for deceased retirees or their ineligible dependents when the retirees do not contribute towards the cost of their health insurance. Thus, we focused on districts that had a high percentage of retirees who did not contribute towards the cost of their health insurance.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of District Officials**

The results of our audit and recommendations have been discussed with district officials and their comments, which appear in Appendix A, have been considered in preparing this report.

## Internal Controls Over Health Insurance Payments for Retirees

School Districts are responsible for operating as economically as possible, and for ensuring that they pay only legitimate costs for which they are legally obligated to pay. However, we found that 10 of the 20 districts we audited paid almost \$239,000 for health insurance premiums for retirees who were deceased, and/or for deceased retirees' dependents who were no longer eligible for this benefit. Districts paid these costs because they had not established control procedures that required obtaining the information necessary to verify retirees' status. We recognize that the amounts these districts overpaid for health insurance benefits are minimal in relation to their total annual health insurance expenditures. However, given the high cost of this benefit, it is essential that districts put simple control measures in place to avoid paying for a benefit that deceased retirees no longer need, and that their dependents are no longer entitled to. When we informed district officials about these improper payments, all of them sought recovery from their insurance providers. Nine<sup>3</sup> of the 10 districts recouped some or all of the overpayments.

Health insurance costs represent a significant portion of a district's budgeted expenditures. For the 20 districts we audited, these costs accounted for between 5 and 12 percent of their budgeted expenditures in the 2009-10 fiscal year. To minimize health insurance costs, it is important that boards of education and district officials develop control policies and procedures designed to ensure that all payments to health insurance providers are supported and accurate.

These controls should include the routine reconciliation of insurance provider invoices with the district's records for active and retired employees. It is important that district records include adequate identifying information for retirees and their dependents, including social security numbers and emergency contact information. Routine reconciliation of district records with provider invoices helps to ensure that all of the covered individuals from the district's records match the insurance bills. To make sure that the district's records are up-to-date and reliable, controls must also include a process to verify that retirees are living, and that they and their dependents still eligible

<sup>3</sup> Ithaca CSD has not yet recovered any of the \$35,425 it paid for coverage for two deceased retirees.

for coverage. When a retiree with family coverage dies, his or her dependents are no longer entitled to receive this benefit at district expense. Because family coverage is significantly more expensive than individual coverage, continuing to pay premiums for such deceased retirees' can be especially costly.

To verify retirees' status, it is important that districts maintain regular communication with retirees, either by personal contact or by requiring some form of correspondence from the retiree (e.g., postcards, letters). Of the 20 districts we audited, only two had written guidelines to ensure the accuracy and appropriateness of health insurance payments for retirees and dependents: Somers Central School District and Yonkers City School District. These school districts have implemented an annual questionnaire<sup>4</sup> and follow-up process to contact all retirees and dependents so they can ensure they are still eligible for health insurance. However, the remaining 18 districts lacked any written guidelines for ensuring the accuracy and appropriateness of insurance premium payments. These 18 districts indicated that they obtain notification of deceased retirees by reading local obituaries, relying on word of mouth and family notification, receiving Medicare reimbursement letters or uncashed Medicare reimbursement checks, and being notified by the New York State Employees Retirement System (NYSERS).

While these informal practices collectively provide some indications of a retiree's death, relying on these practices alone makes the districts dependent on multiple third parties, informal communications and communications made only to retirees eligible for Medicare reimbursements. These practices are not consistently used, and may not identify all deceased retirees. For example, the review of obituaries will identify only those retirees who have continued to live in the community, or whose relatives have chosen to place their obituary in a local paper. Word of mouth and family notification are uncertain sources, either because the deceased retiree no longer has close family members, or because family members do not take the initiative to notify the school district of the retiree's death. Finally, while NYSERS does have mechanisms to determine if members are deceased, only a portion of the district's entire population of retirees belongs to this system; the majority of district retirees belong to the New York State Teachers Retirement System, which does not notify districts when members have died.

<sup>4</sup> Kenmore-Tonawanda UFSD has developed a questionnaire to make contact with all retirees and dependents. However, as of the end of our fieldwork in August 2010, the District had not sent this questionnaire to retirees since February 2008.



Based on the weaknesses and limitations in the districts' monitoring of the continuing eligibility retirees and their dependent spouses, we used computer-assisted techniques to compare the names of 22,422 retirees and dependents<sup>5</sup> whose health insurance benefits were paid by the 20 districts to the records in the Death Master File (DMF), which is maintained by the Social Security Administration (SSA). The DMF includes more than 87 million records of deaths that have been reported to the SSA. SSA compiles the list to ensure that all those receiving Social Security benefits are entitled to them, and are still living. Our test showed that 10 districts had paid health insurance premiums for only 27 ineligible individuals, including 18 retirees, eight dependents, and one surviving spouse. Twenty-four of the individuals had died within the past three years, while one had died in 2007, a second in 2005 and a third retiree had died in 1999. These 10 school districts paid a total of \$238,795 for deceased retirees' and dependents' insurance coverage, or less than four hundredths of a percent of the \$693 million paid to health insurance providers for their current and retired employees. Therefore, while monitoring the continued eligibility of retirees and their dependents represents an opportunity for schools to limit unnecessary costs, districts must carefully weigh the costs of future additional monitoring efforts with the potential benefits that any enhanced control measures may provide.

We provided the 10 districts with a list of all individuals who were deceased and still receiving insurance coverage. Each of these districts took steps to recoup the payments made. Nine of the 10 districts have been subsequently reimbursed by the insurance providers for a portion or all of the payments made on behalf of these individuals. Of the \$238,795 paid on behalf of deceased retirees and/or their ineligible dependents, the nine districts have recouped a total of \$117,556.

The following table illustrates the amounts of overpayment identified, as well as the amounts that have been recouped as of the date of this report:

<sup>5</sup> We could not test individuals for whom the district did not maintain a social security number.

<b>Overpayments Made by 10 School Districts</b>			
<b>School District</b>	<b>Number of Deceased Individuals</b>	<b>Total Overpayments<sup>6</sup></b>	<b>Total Recouped</b>
Ithaca CSD	2	\$35,425	\$0
Rochester CSD	10	\$19,429	\$16,301
Lakeland CSD	1	\$2,060	\$1,549
Washingtonville CSD	1	\$9,760	\$1,236
Westbury UFSD	1	\$20,320	\$20,320
Long Beach CSD	2	\$102,878	\$29,227
Smithtown CSD	2	\$2,999	\$2,999
Mamaroneck UFSD	5	\$27,922	\$27,922
Kenmore-Tonawanda UFSD	1	\$252	\$252
South Country CSD	2	\$17,750	\$17,750
<b>Total</b>	<b>27</b>	<b>\$238,795</b>	<b>\$117,556</b>

#### Recommendations

1. Board of education and district officials should develop written policies and procedures to periodically monitor the status of all retirees and their spouses/dependents receiving health insurance coverage. Such procedures could include regularly contacting all retirees by phone or mail to obtain updates of their contact and eligibility information.
2. District officials should consider establishing systems to maintain adequate information on retirees and their dependents, including social security numbers and emergency contact information, which can be used to ensure eligibility for health insurance coverage.

<sup>6</sup> Total overpayments since the date of death

## APPENDIX A

### RESPONSES FROM DISTRICT OFFICIALS

We provided a draft copy of this global report to all 20 districts we audited and requested a response from each district. We received responses from 16 of the 20 districts, including Central Islip, Huntington, Lakeland, Lindenhurst, Long Beach, Mamaroneck, Massapequa, Port Washington, Ramapo, Rochester, Sachem, Saratoga Springs, Somers, South Country, Washingtonville, and Westbury.

District officials generally agreed with our findings and recommendations. The following comments were excerpted from the responses we received. Comments that were specific to findings at a particular district are not included here, but are instead addressed in the district's individual report. Each district's individual report includes the district's response to our audit of the district.

Central Islip: "We believe that these recommendations provide constructive feedback and will prove to strengthen and improve our overall financial operation and internal controls and reduce the risk of paying for health insurance to deceased individuals in the future. We have begun implementation of your recommendations and will include these procedures in our Corrective Action Plan."

Lindenhurst: "The Health Insurance for Retirees Report is a "must reading" for all school districts. Superintendents and Boards of Education should always welcome the additional oversight and recommendations for further improving the operations and internal control environment of their Districts."

Mamaroneck: "As one of the 20 school districts in the global audit, we appreciate the Office of the State Comptroller's efforts to ensure that school districts implement "best practices" in order to meet the highest standard of fiscal responsibility."

Ramapo: "We thank the Comptroller's Office for its efforts in the area of retiree health benefits. We appreciate the statewide study of this issue and welcome the constructive feedback for our district in particular. This audit provides us with an opportunity to refine our annual retiree verification process. We are committed to continuous improvement of all aspects of the financial operations of the District."

Rochester: "We continue to strive for the optimal control environment and regularly assess our fiscal operations to identify improvements that can strengthen the control environment within the confines of our declining resources. We believe other Districts are also trying to maintain this delicate balance." "We will evaluate the recommendation of the auditors to determine the feasibility of risk reduction improvements for adding additional monitoring methods."

Sachem: "We would like to thank the New York State Comptroller's Office for identifying opportunities for improving operations and Board of Education governance. This has helped Sachem Schools strengthen our internal controls and safeguard assets."

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined District records for the period July 1, 2008 to May 31, 2010 to determine the total amount of overpayments made due to the death of a retiree, spouse or dependent. We reviewed health insurance invoices back to the date of death. Our overall goal was to determine if school districts had adequate controls over the payment of health insurance premiums for retirees to ensure that they are not at risk of making health insurance payments for retirees where eligibility has been precluded by death.

To select school districts for this audit, we reviewed data submitted for all 696 school districts in their annual update document to determine which school districts had over \$75 million in operating expenditures for the 2008-09 fiscal year. These 107 school districts were selected for an internet survey. Based on the results of this survey, school districts with retirees who did not contribute towards health insurance premiums, and those with larger health insurance expenditures as a percentage of total operating expenditures, were selected for our audit.

To determine what controls were in place over the payment of health insurance premiums for retirees, we interviewed District officials and reviewed written policies and/or procedures, if available.

To determine if the list of retirees and dependents provided by the District was reliable, we conducted data reliability testing which included comparing the listing of retirees and dependents with the District's health insurance invoices, reconciliation reports, personnel files, and/or other independent documentation of retirees and their dependents.

To determine if the school district had paid health insurance premiums on behalf of deceased retirees or dependents, we compared the social security numbers, names, and dates of birth of retirees and their dependents to the Social Security Administration's Death Master File. If deceased retirees or dependents were found, these names were submitted to District officials for verification.

To determine the amount of health insurance paid for deceased retirees and dependents we reviewed health insurance invoices back to the date of death and documentation of reimbursement received from the health insurance provider.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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Steven J. Hancox, Deputy Comptroller

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NOTICE IS HEREBY GIVEN THAT THE FISCAL AFFAIRS OF THE HUNTINGTON UNION FREE SCHOOL DISTRICT FOR THE PERIOD BEGINNING ON JULY 1, 2008 AND ENDING ON JUNE 30, 2009 HAVE BEEN EXAMINED BY THE OFFICE OF THE STATE COMPTROLLER AND THAT THE REPORT OF EXAMINATION PREPARED BY THE OFFICE OF THE STATE COMPTROLLER HAS BEEN FILED IN MY OFFICE WHERE IT IS AVAILABLE AS A PUBLIC RECORD FOR INSPECTION BY ALL INTERESTED PERSONS. PURSUANT TO SECTION THIRTY-FIVE OF THE GENERAL MUNICIPAL LAW, THE GOVERNING BOARD OF THE HUNTINGTON UNION FREE SCHOOL DISTRICT MAY, IN ITS DISCRETION, PREPARE A WRITTEN RESPONSE TO THE REPORT OF EXAMINATION PREPARED BY THE OFFICE OF THE STATE COMPTROLLER AND FILE ANY SUCH RESPONSE IN MY OFFICE AS A PUBLIC RECORD FOR INSPECTION BY ALL INTERESTED PERSONS NOT LATER THAN APRIL 25, 2011.

Elizabeth Troffa  
District Clerk  
Huntington U.F.S.D.

Pursuant to Section Thirty-Five of the General Municipal Law, the Huntington Union Free School District Governing Board has authorized the preparation of a written response to the report of examination prepared by the Office of the State Comptroller and will file such response, when completed, in my office as public record for inspection by all interested persons not later than April 25, 2011.



THOMAS P. DiNAPOLI  
COMPTROLLER

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**  
110 STATE STREET  
ALBANY, NEW YORK 12236

56  
STEVEN J. HANCOX  
DEPUTY COMPTROLLER  
DIVISION OF LOCAL GOVERNMENT  
AND SCHOOL ACCOUNTABILITY  
Tel: (518) 474-4037 Fax: (518) 486-6479

January 19, 2011

Mr. John J. Finello, Superintendent of Schools  
Members of the Board of Education  
Huntington Union Free School District  
50 Tower Street  
Huntington Station, NY 11746

Report Number: S9-10-29

Dear Superintendent Finello and Members of the Board of Education:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

In accordance with these goals, we conducted an audit of 20 school districts throughout New York State. The objective of our audit was to determine whether school districts have adequate internal controls over the payment of health insurance for retirees; specifically, to determine if school districts have made health insurance payments for retirees or their spouses and/or dependents where eligibility has been precluded by death. We included the Huntington Union Free School District in this audit. Within the scope of this audit, we examined the policies and procedures of the Huntington Union Free School District and reviewed internal controls over retiree health insurance payments for the period July 1, 2008 to May 31, 2010.

This report of examination letter contains our findings and recommendations specific to the Huntington Union Free School District (District). We discussed the findings and recommendations with District officials and considered their comments, which appear in Appendix A, in preparing this report. District officials generally agreed with our findings and recommendations and plan to initiate corrective action. At the completion of our audit of the 20 school districts, we prepared a global report that summarizes the significant issues we identified at all of the school districts audited.



## **Summary of Findings**

We found that although the District has implemented some procedures to reduce the risk of paying premiums on behalf of deceased retirees and dependents, the District's internal controls could be improved to ensure the accuracy and appropriateness of the District's payments of health insurance premiums for its retirees and their spouses/dependents. Existing controls are limited for retirees and their dependents that do not contribute toward the cost of their coverage, and do not include a process to ensure that the District receives prompt notification of the deaths of retirees or their dependents who receive District-provided health insurance coverage.

Our comparison with the Social Security Administration's Death Master File found that the District had not made payments on behalf of deceased retirees during our audit period. However, the District is at risk for this occurring in the future.

## **Background and Methodology**

The Huntington Union Free School District (District) is located in the Town of Huntington in Suffolk County, and is governed by a seven-member Board of Education (Board). The Board is responsible for establishing District policies, including policies for the payment of health insurance for retirees. The Assistant Superintendent for Finance and Management Services oversees the District's daily fiscal operations including the payment of health insurance invoices. The District has eight schools in operation and employs approximately 852 staff. The District provides health insurance coverage to its current and retired employees. Approximately 155 retired employees and 35 surviving spouses are entitled to health insurance coverage for which they are required to pay a percentage of the total premium as defined by the collective bargaining agreement or employment contract that was in effect at the time of retirement. The District pays the entire premium for an additional 194 retired employees. The District's total health insurance expenditures for retirees were approximately \$4,300,000 for the 2008-09 fiscal year and \$3,875,000 for the 2009-10 fiscal year through May 31, 2010.

The District provides health insurance through the New York State Health Insurance Program (NYSHIP) and another health insurance provider. The District pays monthly premiums to each health insurance provider for each active and retired employee, the cost of which depends on whether the individual is enrolled in individual or family coverage. For retirees, the District provides such coverage based on marital status and/or dependent survival status. If a retiree passes away, the retiree's surviving spouse and/or dependents are entitled to continued coverage if they pay 100 percent of the premiums. The District provided a list of 653 retirees, surviving spouses, and/or other dependents who receive health insurance coverage from the District. Of these, 194 do not contribute to the cost of their health insurance coverage because the District has contractually agreed to pay 100 percent of the health insurance costs for certain retirees. Of the remaining 459 individuals, 35 are spouses and/or dependents who reimburse the District for the cost of their premiums, and 424 are retirees and their dependents who contribute a percentage of the premium.

The Death Master File (DMF) from the Social Security Administration (SSA) is a database that contains over 87 million records of deaths that have been reported to SSA. The SSA maintains this list from information received directly from vital records in each state, personal contact with surviving family members, and other notices. The purpose of compiling this list is to ensure that

all those receiving Social Security benefits are in fact entitled and are not deceased. For audit purposes, we obtained the DMF as of June 28, 2010.

We interviewed various District officials to determine the District's procedures for verifying ongoing health insurance eligibility for its retirees and their spouses and/or dependents. We also reviewed employee contracts, health insurance general ledger reports, health insurance invoices, and other supporting documentation. Our audit procedures included steps using the DMF to determine if the District was paying health insurance premiums for individuals whose eligibility was precluded by death.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

### **Audit Results**

School districts should design controls to ensure that all payments to health insurance providers are accurate. These controls should include a process to determine the status both of retirees and of their dependents, particularly since family coverage is significantly more expensive than individual coverage. In addition, the routine reconciliation of the provider invoices with the District's records helps to ensure that payments are accurate.

Although the District has implemented some procedures to reduce the risk of paying premiums on behalf of deceased retirees and dependents, the District's internal controls could be improved to ensure the accuracy and appropriateness of its insurance premium payments for retirees. The District does not have written guidelines and has only limited controls to monitor the ongoing eligibility of its retirees and their dependents, particularly those who are not required to pay a portion of their health insurance premiums. Retirees who contribute towards their premiums are notified by the District annually of how much they must contribute. Some pay the District directly by cash or check and some have their contribution deducted from their pension or from a bank of accrued leave time converted to a cash dollar amount. For those that pay the District directly, this creates a control over the continued eligibility of these retirees; that is, the receipt of payment from retirees confirms that they are still living. District officials also maintain records of payments received and follow up with retirees for payment when needed.

Also, the District does not have a formal, proactive process to ensure being promptly notified of retirees' and dependents' deaths. District officials send our letters to retirees on an annual basis that must be returned in order to receive their Medicare reimbursement. In addition, District officials rely on voluntary notifications from the spouses or children of retirees, updates from the New York State Department of Civil Service, notifications from the Employees' Retirement System, and listings in the local obituary for notification of deceased retirees. Therefore, the District's system is dependent on multiple third parties and optional communications that may not be consistent or complete; in the case of those receiving correspondence for Medicare, only those retirees eligible for Medicare reimbursements are included. The review of obituaries is limited to those who resided in the community or whose relatives place an obituary in a local paper. Further, if a retiree or surviving spouse/dependent does not contribute toward health

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insurance premiums, there is no incentive to notify the District of an event that would alter their coverage, since they would not save money through a reduction of benefits. Similarly, if they do not have to provide updated information periodically to verify their continued eligibility, there is no incentive to do so.

We compared a list of all retirees and their spouses and/or dependents who receive District-provided health insurance, as of June 2010, to the DMF. We found that the District did not pay health insurance premiums on behalf of deceased retirees.

While we did not find that the District was paying health insurance premiums for deceased individuals for the period July 1, 2008 through May 31, 2010, the District is at risk for this occurring in the future.

### **Recommendation**

1. The Board and District officials should develop written policies and additional procedures to periodically monitor the status of all retirees and their spouses/dependents receiving health insurance coverage. Such procedures could include periodic contact by phone or mail, and/or requiring that all retirees update their information regularly to verify eligibility and ensure continued coverage.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Sincerely,



Steven J. Hancox  
Deputy Comptroller  
Office of the State Comptroller  
Division of Local Government  
and School Accountability

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following page.



Received

NOV 01 2010

Office of the State Comptroller  
Local Government Accountability

## Huntington Union Free School District

"A Tradition of Excellence Since 1657"

John J. Finello  
Superintendent of Schools

October 27, 2010

[REDACTED]  
Principal Examiner  
Office of the State Comptroller  
110 State Street  
Albany, N.Y. 12236

Dear [REDACTED]

The Huntington Union Free School District is in receipt of your draft report regarding adequate internal controls over the payment of health insurance for retirees. We felt that the audit process was completed in a fair and timely fashion. The district recognizes that the recommendation is meant to improve this facet of our operation.

We are in the process of developing a corrective action plan. Thank you for your input.

Yours truly,

John J. Finello

Cc: David Grackin, Assistant Superintendent