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**Thomas P. DiNapoli  
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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**DEPARTMENT OF CIVIL  
SERVICE**

**HEALTH INSURANCE  
PREMIUMS FOR  
PARTICIPATING  
EMPLOYERS**

**Report 2007-S-83**

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## AUDIT OBJECTIVES

The objectives of our performance audit were to determine whether the Department of Civil Service (Department) has been billing local government agencies and public authorities (participating employers) timely and accurately for health insurance coverage, and collecting or otherwise accounting for all amounts due from participating employers.

## AUDIT RESULTS - SUMMARY

We found that the Department has been billing and collecting from participating employers for health insurance coverage on a timely basis, and that these bills are accurately calculated and properly accounted for based on the insurance information maintained as part of the Department's automated benefits management system. We did, however, find certain cases in which the information in the system was not accurate, resulting in the costs for some public authority employees being billed to the State and vice versa.

The Department bills participating employers at the beginning of the month for coverage the following month. We found the Department collects the amounts due and records the amounts received from participating employers timely and against the proper accounts.

The Department generates its monthly billing statements based on enrollment information provided by the participating employers. We compared a sample of billing statements with the enrollment information and found that billing statements have: the coverage type carried forward correctly, the coverage rate correctly calculated based on the coverage

type, the administrative assessment rate applied correctly, and the number of employees calculated correctly. However, we also found some employee's records showed that they worked for one entity, while a second entity was billed incorrectly for their health insurance costs.

We examined the September 2007 billings to 15 public authorities and 10 local governments and identified 23 cases in which an employee's health insurance costs were being billed to the wrong entity. All of the errors were related to three public authority employers. In total, we found that the State was billed during this month for \$10,233 in insurance costs for 19 authority employees, while the authorities were billed \$1,586 for costs associated with 4 employees who actually worked for the State. Further investigation by the Department found that most of these problems occurred because the billing entity for the employees had changed during their careers; but only the employer code, and not the billing code, had been updated.

Our report contains three recommendations to identify, investigate, and correct cases in which it is possible that employee health insurance costs are being billed to the wrong employer. Department officials indicate, regarding the 23 cases we identified, that they have processed billing adjustments to recover \$702,883 of costs charged improperly to the State and to refund \$137,212 in charges billed improperly to the 3 participating employers, for a net recovery of \$565,671 to the State. They are also developing a system edit check for identifying and investigating instances in which the employer and billing entity codes differ.

This report, July 3, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The Department is responsible for providing human resource management services to State and local governments. Based in Albany, the Department operates under the direction of a Commissioner appointed by the Governor. For the 2006-07 fiscal year, the Department had 572 employees in 8 divisions and a budget of \$65.6 million.

The Department administers health insurance and other benefit programs for State agencies and participating employers (local government agencies and public authorities). The Department's Employee Benefits Division (Division) is responsible for the administration and financial management of these programs. The Division collects premium payments from participating employers along with an administrative assessment to cover its costs for administering the programs. The Division then pays the insurance carriers that provide coverage to employees of these participating employers.

To assist in this, the Division relies on the New York Benefits Eligibility and Accounting System (NYBEAS). This computer system contains information about State agencies and participating employers and their active and retired employees and their dependents. The information in NYBEAS is used to generate monthly bills to each participating employer, to determine how much is owed to the insurance carriers for providing coverage, and to track payments

made to the Division. In addition, NYBEAS is used to track the amounts in the Health Insurance Fund, which the Division uses to record all premiums received and paid out, as well as interest earned and dividends received from insurance carriers.

Our audit focused on the Division's processes for billing to and collecting from participating employers. During the 2005-06 and 2006-07 fiscal years, the Division billed 911 participating employers a total of nearly \$5.05 billion for health insurance and related administrative assessments. The following table shows the amounts outstanding for health insurance coverage, as of April 9, 2007, for periods prior to April 2007:

Month of Coverage	Days Outstanding	Total Amount Owed
December 2006 or earlier	More than 120	\$1,831,186
January 2007	91 to 120	517,265
February 2007	61 to 90	1,837,225
March 2007	31 to 60	21,207,240
Total Amount Outstanding		\$25,392,916

## AUDIT FINDINGS AND RECOMMENDATIONS

### *Billings*

#### Timeliness of Billings

The Division must pay the insurance carriers each month for health insurance coverage provided to individuals employed by participating employers. If money owed by participating employers is not paid in full and on time, the Division must use State money to advance these payments and then seek

repayment from the participating employers. Therefore, to reduce the likelihood that State money will be needed to pay for coverage of non-State employers, the Division needs to bill participating employers sufficiently in advance of when payment is due to the insurance carriers.

We found the Division bills participating employers timely. Participating employers are billed at the beginning of each month for the following month's coverage (some are billed biweekly). In contrast, the Division pays the insurance carriers at the end of each month for that month's coverage. As a result, the Department has almost two full months to collect from participating employers before payment is made to the insurance carriers. This substantially reduces the risk that State monies will be used to pay for coverage of non-State employees.

### **Accuracy of Billings**

Each billing statement sent to a participating employer should reflect the most current information for each covered individual. The billing statement should also include the correct rates for the types of coverage being provided, and the correct administrative assessment rate, which is the amount paid by participating employers to cover the Division's cost of administering the program.

Within NYBEAS, each person is assigned three separate codes to indicate the benefits available to that individual and any dependents. The first code (Benefit Program) indicates the specific set of benefits available; the second code (Coverage) indicates whether the coverage is just for the individual or for the individual and one or more dependents; and the third code (Benefit Plan) indicates the insurance carrier providing the coverage.

During the two fiscal years covered by our audit, 911 non-State employers participated in the health insurance program: 813 local government agencies and 98 public authorities. We selected a judgmental sample of 10 local government agencies and 15 public authorities and examined the accuracy of their September 2007 billings. From billing statements sent to these 25 participating employers, we selected a random sample of 11 Benefit Program and Coverage code combinations to test for proper coverage and charges. We then randomly selected one individual for each of the unique combinations and verified that the information contained on NYBEAS was carried forward correctly to the billing statements. In each case, we found the information on NYBEAS matched the information on the billing statements.

Each year, the Division calculates the costs it incurs in administering health insurance coverage to non-State agencies. These costs are then divided by the number of covered individuals to determine a per-person assessment rate, which the Division charges each participating employer. The 813 participating local government agencies pay this assessment rate as part of their monthly billing, while each of the 98 public authorities pays a lump sum on an annual basis. For our sample of ten local government agencies, we also reviewed the billing statements to determine whether each had been billed the correct assessment rate in effect at that time and found no exceptions. We did not test the annual assessment owed by the participating public authorities, because it was not billed at the time of our field work.

Based on our review, we conclude that NYBEAS is accurately carrying the information regarding coverage forward to the billing statements and applying the correct rates for that coverage, along with the correct

administrative assessment rate to cover the Division's costs.

### **Completeness of Billings**

The Division should ensure that each participating employer is billed for all individuals covered by that employer, and only for those individuals. When the Division is notified of a change in coverage, the participating employer's billings should be adjusted accordingly.

Each unique combination of Benefit Program, Coverage, and Benefit Plan codes offered by a participating employer appears as a separate row on the billing statement, with the total number of individuals receiving that coverage for the period covered by the billing statement. In addition, there are separate rows for any individuals whose coverage has changed.

For each participating employer in our sample, we obtained a list of the individuals receiving coverage, according to NYBEAS, and the detail behind the billing statements issued in September 2007. We compared the rows on the billing statements with the list of individuals, reviewing a total of 247 rows on 27 billing statements. Although we were able to reconcile all discrepancies between the number of employees that should have been billed for in each row and what appeared on the billing statements, we did identify several cases in which it appeared that an incorrect employer was being billed for a particular individual's coverage.

We identified 23 individuals from 3 of the 25 participating employers in our sample whose coverage, based on the information on NYBEAS, had been billed to incorrect employers. In 19 cases, the employees were working for a participating employer, but their health insurance was being charged

against the State's General Fund at a total cost of \$10,233 for the month. Twelve of these employees worked for the State Insurance Fund, five for the State University Health Science Center at Brooklyn (SUNYHSCB), and two for the Roswell Park Cancer Institute. In the four other cases, employers were billed a total of \$1,586 for coverage of individuals who actually worked for agencies that should have been billed to the State's General Fund. These included three regular SUNY staff billed to SUNYHSCB and one Workers Compensation Board employee billed to the State Insurance Fund.

Further review indicated that the participating employers' bills had been calculated correctly based on the information in NYBEAS, but that different codes had been entered in the NYBEAS information for each individual's employer and the billable entity. In some cases, a difference can be appropriate, such as when an employee is on temporary loan to another entity. Regular State employees also have two different codes, because their benefit cost is billed directly to the State's General Fund regardless of which individual agency employs them. However, the costs associated with a public authority or local government employee should rarely be billed to the State or vice versa.

We provided Division officials with detailed information about these 23 individuals we identified for follow-up beyond our test month of September 2007. Officials agreed with our findings and stated that most of the instances involved individuals whose employment circumstances had changed, but whose employers had not updated the data properly in NYBEAS to reflect the changes. Officials found that these 23 errors had resulted in \$702,883 in costs being billed incorrectly to the State, offset by \$137,212 in State costs billed to the 3 participating employers. Division officials indicated that

they corrected the errors and processed billing adjustments during the November 2007 billing cycle to recover the net amount due the State, \$565,671. Furthermore, they said they are developing and hope to have in place soon a process for identifying billing discrepancies.

Because the Division bills participating employers a month in advance, changes in coverage information between the date of the billing statement and the start of the month are not reflected in the original bill. These adjustments are reflected as a retroactive adjustment on a future bill. We selected a judgmental sample of 12 out of 54 different types of retroactive adjustments shown on the 27 billing statements we reviewed and verified that the information on the billing statements matched the information in NYBEAS. For all 12 retroactive adjustments, we found that the information in NYBEAS had been carried forward correctly to the billing statements.

The Division relies on the information contained in NYBEAS to generate its billing statements. Based on our review, it appears that the information in NYBEAS is carried forward correctly to the billing statements. As a result, each participating employer is billed for all individuals that, according to NYBEAS, are covered by that employer. In addition, it appears that changes to coverage information that affect periods already billed are included correctly on subsequent billing statements, as a retroactive adjustment. However, while the billing statements accurately reflect the information contained in NYBEAS, as previously discussed, we did find instances in which the information in NYBEAS was inaccurate. In response to our draft report, Department officials indicated that controls have been implemented to prevent these instances from occurring in the future.

### **Recommendations**

1. Develop and implement a check in NYBEAS that will identify instances in which the participating employer being billed is different from the participating employer for whom the individual is working.
2. Perform reviews of individuals identified by the check described in Recommendation 1 to determine whether their health insurance coverage is being charged to the appropriate employer.
3. Determine whether the health insurance coverage of the 23 individuals identified in the report has been billed to the incorrect employer, and make the appropriate retroactive adjustments and cost recoveries.

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### *Collections*

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Section K of the Budget and Reporting Manual issued by the New York State Division of Budget (Section K), provides guidelines regarding the management of accounts receivables by State agencies. Section K is intended to ensure that State agencies engage in efficient and effective debt collection. To achieve this goal, State agencies are responsible for, among other things, collecting information about the amounts owed, conducting appropriate collection actions, and requiring timely payment.

To meet these responsibilities, the Division relies on NYBEAS to generate bills for participating employers and track the amounts owed. In accordance with the Section K requirement that State agencies require timely payment, the Division expects participating employers to pay within 25 days of receiving the bill.

Payments from the participating employers go primarily to a lockbox, though some participating employers send their payments directly to the State's General Fund. A few payments - mostly checks that could not be processed through the lockbox - are received directly by the Division. All payments are recorded in the Health Insurance Fund, which is used by the Division to track payments received from participating employers and other sources (such as pension plans) as well as other payments made to insurance carriers.

Information about payments received is entered into NYBEAS, making it possible to track any outstanding amounts owed. Once a month, the Division generates an aged accounts receivable schedule, showing the amounts owed by each participating employer and how long it has been outstanding. Division management then uses this schedule to identify participating employers who are delinquent.

When a participating employer does not pay within 25 days, as the Division requires, the Division begins collection proceedings. Initially, the Division sends a reminder letter, listing the amounts owed. If the participating employer does not pay within 90 days, Division management is notified; and a repayment program is developed with that participating employer.

Between April 1, 2005, and March 31, 2007, the Division billed participating employers a total of \$5.05 billion. During this same period, the Division collected \$5.04 billion. The unpaid balance was about \$10.1 million, less than 1 percent of the total amount billed. As of April 9, 2007, the Division had a total amount outstanding of \$25.4 million for health coverage through March 2007. Of this total, \$21.2 million was no more than 60 days past due, while \$1.8 million was more than 120 days past due. The Division has

developed repayment plans with all participating employers who are more than 90 days past due.

The Division has as much as two full months to collect the premiums from its participating employers. Based on the outstanding amounts reported by the Division, it appears that the Division is collecting the majority of what is billed to participating employers within this two-month window. In addition, the Division monitors participating employers to identify those who are delinquent. By working with delinquent employers to develop a repayment plan and schedule, Division management has minimized the likelihood that State funds will be needed to pay for the health insurance coverage of non-State employees.

#### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Department's administration of health insurance benefit programs for local government agencies and public authorities for the period April 1, 2005, through October 12, 2007. To accomplish our objectives, we reviewed relevant State laws and regulations, as well as guidance provided by the New York State Division of Budget, regarding collections processing. We interviewed Division officials and employees to gain an understanding of the billing and collections processes, including how NYBEAS works. We reviewed a sample of 10 billing statements issued to participating employers to verify that they were charged the correct rates and a sample of 24 billing statements issued to participating employers to verify that they were charged for the correct number of people. We also reviewed a sample of 11 individuals on NYBEAS to verify that the information about their coverage, as recorded

in NYBEAS, was carried forward to the billing statements correctly. In addition, we reviewed Division reports to reconcile the amounts billed to participating employers, received from participating employers, and paid to insurance carriers.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of who have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

#### **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article

V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

#### **REPORTING REQUIREMENTS**

A draft copy of this report was provided to Department officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Civil Service shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Frank Houston, John Buyce, Christine Rush, Jennifer Paperman, Diane Hardy, and Andre Spar.

## APPENDIX A - AUDITEE RESPONSE



DAVID A. PATERSON  
GOVERNOR

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NANCY G. GROENWEGEN  
COMMISSIONER

June 10, 2008

Mr. John Buyce  
Audit Manager  
NYS Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> floor  
Albany, NY 12236

RE: Draft Audit Report (2007-S-83)  
Health Insurance Premiums for Participating Employers

Dear Mr. Buyce,

We have received and reviewed the Draft Audit Report #2007-S-83 entitled *Health Insurance Premiums for Participating Employers*. We are very pleased to note that the report confirmed that the Employee Benefits Division of the Department of Civil Service is doing an excellent job in billing and collecting health insurance premiums on a timely basis; that bills are calculated accurately, and that billings and receipts are properly accounted for.

The few audit exceptions noted were for a very specific set of circumstances not routinely encountered in our daily operations and which cannot be automatically processed using the New York Benefits Eligibility and Accounting System (NYBEAS). They were rectified immediately and controls were implemented to prevent these cases from occurring in the future.

We greatly appreciate your assistance in our efforts to continuously review, refine and improve Department processes.

Sincerely,

A handwritten signature in cursive script that reads "Deirdre Taylor".

Deirdre Taylor  
Deputy Commissioner for Administration

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