



Broadalbin-Perth Central School District Health Insurance Buyouts and Separation Payments

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2014

2014M-146



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

Dear School 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 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.

Following is a report of our audit of the Broadalbin-Perth Central School District, entitled Health Insurance Buyouts and Separation Payments. 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 are resources for district 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

The Broadalbin-Perth Central School District (District) is located primarily¹ in the Towns of Perth and Broadalbin in Fulton County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, accounting records and reports are largely those of the School Business Administrator, who has been appointed by the Board. The School Business Administrator, who has also been appointed by the Board to serve as the Treasurer, supervises all functions within the Business Office.

The District has four schools with a combined enrollment of approximately 1,800 students. The District's budgeted appropriations for the 2013-14 fiscal year were approximately \$30 million and were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to examine the adequacy of and support for the District's calculations of separation payments and health insurance buyouts. Our audit addressed the following related question:

- Are District payments for health insurance buyouts and separation payments calculated correctly and supported by employee contracts?

Scope and Methodology

Our overall goal was to assess the adequacy of the District's financial operations. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that inherent

¹ The District is located in the Towns of Broadalbin, Perth, Johnstown, Mayfield and Northampton in Fulton County; the Towns of Edinburg, Galway and Providence in Saratoga County; and the Town of Amsterdam in Montgomery County. The District receives approximately 70 percent of the budgeted tax levy from the Towns of Broadalbin and Perth.

risk existed in the health insurance buyout and separation payment areas and, therefore, we examined the health insurance buyout and separation payments for the period July 1, 2012 through February 28, 2014. We expanded our scope to the 2011-12 fiscal year for purposes of reviewing separation payments.

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 have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with the findings contained in this report.

Health Insurance Buyouts and Separation Payments

In addition to established wages and salaries, districts may make buyout payments to employees who opt to take cash payments in lieu of health insurance coverage and separation payments to employees that are leaving employment. These payments can represent significant expenditures for the District. As such, it is essential that the Board ensure each payment is accurate, authorized by employment contracts and approved by the Board.

We reviewed 151 health insurance buyout payments totaling \$85,250 and 14 separation payments totaling \$121,014 and found that they were accurate, in compliance with the terms of employee contracts and approved by the Board.

Health Insurance Buyouts

Health insurance buyouts are payments to employees in exchange for employees not participating in health care coverage within an organization's health plans. When coverage can be obtained through an alternate source (usually under a spouse's plan), a payment in lieu of coverage is beneficial to both the District and employee because it saves the District on its cost of health insurance, increases the employee's gross income and eliminates the employee's contribution toward the cost of health insurance if applicable. The District may incur significant expenditures for the buyouts, and, therefore, it is essential that the Board ensures these payments are calculated properly, authorized by the respective collective bargaining agreements (CBAs)² or individual contracts and made only to employees that are eligible for this benefit.

The District employees'³ terms for employment are authorized in CBAs and individual contracts. One of the provisions contained in each of these agreements is the option for a payment in lieu of accepting health insurance coverage from the District. Each agreement authorizes a payment if coverage is obtained through an alternate source. The District requires employees requesting buyouts to provide proof of coverage from alternate sources by deadlines established in the CBAs.

² Health insurance buyout payments authorized in the District's collective bargaining agreements and individual contracts range from \$800 to \$5,200.

³ The employees of the District are represented by three collective bargaining units or have management confidential –individual employment contracts. The collective bargaining units are the Teachers-Broadalbin-Perth Teachers Association, Support Staff-Civil Service Employees Association and the Transportation Staff-Bus Drivers Association.

During 2012-13 and from July 1, 2013 through February 28, 2014, the District made 93 payments to 62 employees⁴ and 58 payments to 58 employees for health insurance buyouts, totaling \$49,850 and \$35,400 respectively. The District provided lists of employees that received health insurance buyouts. We verified that their respective CBAs or individual employment contracts authorized the payments. We also re-calculated the payments and verified that the employees provided proof of alternate coverage as required by the CBAs or individual employment contracts. Except for minor discrepancies, which we communicated to District officials, we found the payments were properly calculated and in compliance with the terms of the applicable contracts.

Separation Payments

Another type of payment made to employees is for unused leave time. Leave time is an employee benefit generally granted in negotiated CBAs or individual employment contracts. Generally, employees earn a fixed number of days each year for vacation, illness and personal use. School Districts often provide cash payments (separation payments) to employees for all or a portion of their unused leave time when they leave District service. In many instances, employees have accumulated a substantial amount of unused leave time and the cash payments to departing employees can be significant expenditures for the District. As such, it is essential the Board ensure that these payments are properly calculated, supported and approved by the Board.

During the 2011-12 and 2012-13 school years, 14⁵ employees left District services and received separation payments totaling \$121,014. We reviewed each of these payments to determine if the payments were properly calculated, supported and approved by the Board. We found that all 14 payments were calculated properly, supported by the applicable employee contract and approved by the Board.

We commend the District for designing and implementing an appropriate system of controls over health insurance buyouts and separation payments.

⁴ According to the Civil Service Employees Association CBAs eligible employees receive the stipend in two payments during the school year with 50 percent paid on or about October 15 and the remaining 50 percent on or about March 15.

⁵ Nineteen employees left District service during the period February 1, 2012 through June 30, 2013; 14 employees were eligible and received separation payments.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street
Albany, NY 12236-0001

August 3, 2014

Dear Sir / Madam:

Please accept this letter as a formal response to the draft audit report from the Office of the State Comptroller submitted to the Broadalbin-Perth Central School District on June 30, 2014. The scope of the detailed examination related to the District's health insurance buyouts and separation payments made to staff upon retirement or resignation.

The audit committee reviewed the report with the OSC audit staff in detail. As there were no formal recommendations made to the District regarding practice and procedure, the District will have no corrective action plan related to this audit, and offers no rebuttal to any information within the audit report.

The District would like to thank the field audit team that completed this examination. Both [REDACTED] and [REDACTED] were an absolute pleasure to work with throughout this process. They were professional, friendly, and very considerate of the business office staff and their time. The District greatly appreciates their advice and suggestions.

In closing, the Broadalbin-Perth Central School District has reviewed the OSC examination report and believes the report is accurate and a fair representation of District practices.

Sincerely,

Robert Becker, Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected health insurance buyouts and separation payments for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed CBAs, Board resolutions and individual contracts to verify the provisions authorizing health insurance buyouts and payments for unused leave.
- We interviewed knowledgeable personnel including District management and staff to gain an understanding of the District's process to disburse payments for health insurance buyouts and separation payments.
- We reviewed health insurance buyout payments and separation payments to ensure the payments were properly calculated and supported.

We conducted this performance audit in accordance with 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.

APPENDIX C

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Gabriel F. Deyo, Deputy Comptroller
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