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January 19, 2011

Dr. George Stone, Superintendent of Schools
Members of the Board of Education
Lakeland Central School District
1086 East Main Street
Shrub Oak, NY 10588

Report Number: S9-10-28

Dear Superintendent Stone 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 Lakeland Central School District in this audit. Within the scope of this audit, we examined the policies and procedures of the Lakeland Central School District and reviewed internal controls over retiree health insurance payments for the period July 1, 2008 to May 31, 2010. In order 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, when applicable.

This report of examination letter contains our findings and recommendations specific to the Lakeland Central 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. Appendix B contains our comment on issues raised in the District's response. 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 made payments on behalf of one deceased retiree who passed away in March 2010. Payments for this retiree totaled \$2,060 and included four months of premium payments. The District obtained reimbursement for three months of this overpayment, totaling \$1,549, from the health insurance provider.

Background and Methodology

The Lakeland Central School District (District) Lakeland is located in the Towns of Yorktown, Cortlandt, and Somers in Westchester County and the Towns of Carmel, Philipstown, and Putnam Valley in Putnam County, and is governed by a nine-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 Business oversees the District's daily fiscal operations including the payment of health insurance invoices. The District has nine schools in operation and employs approximately 1,200 staff. The District provides health insurance coverage to its current and retired employees. Approximately 633 retired employees, spouses, and dependents 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 380 retired employees. The District's total health insurance expenditures for retirees were \$5,834,264 for the 2008-09 fiscal year and \$6,300,739 for the 2009-10 fiscal year through May 31, 2010.

The District provides health insurance through a health insurance consortium facilitated by the Putnam-Westchester BOCES and administered by a third party. The District pays monthly premiums to the consortium for each active and retired employee, the cost of which depends on whether the individual is enrolled in individual or family coverage and the individual's collective bargaining unit at retirement. 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 1,013 retirees, spouses and dependents who receive health insurance coverage from the District. Of these, 380 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. Of the remaining 633 individuals, 24 are surviving spouses that reimburse the District for the cost of their premiums, and 609 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 death that have been reported to the 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 has only limited controls to monitor the ongoing eligibility of its retirees and dependents, particularly those who are not required to pay a portion of their health insurance premiums. Retirees who contribute toward their health insurance are billed by the District on a quarterly basis, and pay the District by cash or check. 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.

However, the District does not have a formal, proactive process to ensure being promptly notified of retirees' and dependents' deaths. The District has some written guidelines that include reviewing the monthly personnel agenda for insurance actions, meeting with new retirees, and sending letters to surviving spouses upon the death of a retiree. However, these written guidelines do not provide for a process to ensure the District is promptly notified of retirees' and dependents' deaths. District officials rely on voluntary notifications from the spouses or children of retirees, and listings in the local obituary for notification of deceased retirees. In addition, the health insurance consortium sends out annual updates and sends out newsletters three times a year. If these mailings are returned as undeliverable, the District will follow up with the retiree to

determine if there has been a change. Therefore, the District's system is dependent on multiple third parties and optional communications that may not be consistent or complete. 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 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 paid health insurance premiums, totaling \$2,060, on behalf of one deceased retiree who did not contribute toward the cost of coverage. This retiree died in March 2010. The District paid premiums totaling \$2,060 for the four-month period April 2010 to July 2010. The District recouped \$1,549 from its health insurance provider, the equivalent of three months of premium payments.

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.



**CENTRAL
ADMINISTRATION**

Dr. George E. Stone
Superintendent

Raymond E. Morningstar, Jr.
Assistant Superintendent for Business

Jean Miccio
Assistant Superintendent for Instruction

Dr. Tammy Cosgrove
*Assistant Superintendent for
Human Resources*

James Van Develde
Director of Communications

October 21, 2010

[REDACTED]
Local Government & School Accountability
State of New York – Office of the State Comptroller
295 Main Street, Room 1032
Buffalo, New York 14203-2510

Audit: Internal Controls Over The Payment Of Health Insurance For Retirees

Dear [REDACTED]

After a review and discussion of the draft version of the audit, the District is in agreement with the audit report, but with the following exceptions:

1. Data included in the report was in error regarding the cost of retiree health benefits. The auditors listed the District's 2008-09 and 2009-10 expenditures as \$19,487,173. and \$20,556,800. respectively, while the actual expenditures for those years were \$5,833,596. and \$6,766,757.
2. The District has used a Social Security database to find unreported deceased retirees on a bi-monthly basis since 2008. The omission of this information from the audit report is misleading and misrepresents the District's ongoing efforts to identify deceased retirees.
3. A statement in the report on pg. 3, pp.6, indicates the District does not have "...a formal, proactive process to ensure being promptly notified of retirees' and dependents' deaths." When the frequent contacts/mailers to retirees by the business office and the Consortium are combined with regular monitoring of the Social Security files as noted in response #2, this statement does not accurately represent current practices.

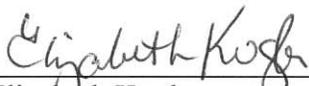
See
Note 1
Page 7

See
Note 2
Page 7

See
Note 2
Page 7

(A Corrective Action Plan will be submitted separately).

Signed:


Elizabeth Kogler
Board President

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APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

After discussions with District officials, we made the appropriate changes to the report.

Note 2

During our audit, District officials told us that they were entering social security numbers into a genealogy website to determine if retirees or their dependents were deceased. We determined that the information sent to this website is unencrypted, making the social security numbers that are entered into the website potentially vulnerable to internet users who may be interested in obtaining such information. In addition, there are inherent vulnerabilities in sending sensitive information to a third party vendor, the genealogy website, because we do not know how the genealogy website is using this information or whether this website maintains the social security numbers that are entered. We discussed with District officials these risks and explained why we omitted this information from the report.