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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

September 15, 2011

Ms. Patricia Hite  
Acting Commissioner  
Department of Civil Service  
Alfred E. Smith State Office Building  
Albany, NY 12239

Re: 2010-S-62  
Department of Civil Service  
Health Insurance Premiums

Dear Acting Commissioner Hite:

According 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, we audited the Department of Civil Service's Health Insurance Premiums for participating employers for the period July 3, 2008 through March 9, 2011.

**A. Background**

The Department of Civil Service (Department) provides human resource management services, including 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 health insurance premiums from participating employers to pay carriers who provide insurance coverage.

To assist it in this endeavor, the Division relies on the New York Benefits Eligibility and Accounting System (NYBEAS). NYBEAS contains information about State agencies, participating employers, and their active and retired employees and dependents. This information is used by the Division to recover insurance premiums it paid on behalf of participating employers.

On July 3, 2008, the New York State Comptroller's Office issued a report, Department of Civil Service: Health Insurance Premiums for Participating Employers (2007-S-83). The report identified 19 cases in which an employee's health insurance costs were wrongly billed to the State rather than the appropriate participating employer. The report contained three recommendations to identify, investigate, and correct cases where health insurance costs are being billed to the wrong employer. However, we found Department officials failed to take sufficient actions to address the deficiencies we had identified, prompting us to initiate this audit.

## **B. Audit Scope and Methodology**

The objective of our audit was to determine to what extent New York State is inappropriately incurring the cost of health insurance premiums for employees of participating employers. To accomplish our objectives, we reviewed applicable laws, regulations, policies, and procedures, and interviewed Department officials. We also obtained and reviewed NYBEAS eligibility files for the period January 2009 through December 2010.

We conducted our performance audit in accordance with generally accepted government auditing standards. 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.

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 whom 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.

## **C. Results of Audit**

We obtained NYBEAS eligibility listings to identify instances where the State paid health insurance premiums for employees of participating employers. Using Department and State payroll data, we investigated each instance to determine whether the payment was appropriate. We found the Department inappropriately used State funds to pay health insurance premiums for 13 of 227 individuals we examined. This sample included all 227 possible exceptions that were identified on the eligibility listing for the audit period. As of March 16, 2011, these inappropriate payments totaled \$409,799. We informed Department officials of these errors; they corrected their records and recovered these funds.

We found 12 of the 13 errors resulted from Department staff only partially updating employment histories when, for example, individuals changed employment from a State agency to a participating employer. When this happened, the new employer was not billed for its new employees' health insurance premiums. According to Department officials, as a result of our findings, the employees responsible for making these adjustments were reminded of the importance of ensuring they update all required information.

We attribute the Department's erroneous use of State funds to management's failure to establish sufficient controls. When we asked Department officials why they did not implement the prior audit recommendations, they told us they asked their IT Department to develop a query that would identify instances in which the participating employer being billed is different from the participating employer for whom the individual is working, but their request purportedly was not fulfilled due to other higher priority requests. However, officials could provide no evidence to support their statements.

Although the query discussed above would be a good monitoring tool, we believe a NYBEAS edit check would ensure manual adjustments are completely processed, therefore preventing most of the errors we identified from occurring. The edit would require that certain data fields be reviewed or updated before the employee file can be processed. This control will ensure participating employers are properly billed for their employees' health insurance premiums. We recommend the Department implement both the edit check and the query, to ensure only appropriate insurance premiums are paid from the State's general fund.

### **Recommendations**

1. Develop and implement a NYBEAS edit check that requires certain data fields be reviewed or updated before the employee file can be processed to ensure participating employers are properly billed for their employees' health insurance premiums, unless an override is necessary.
2. Develop and implement a query using NYBEAS that will identify instances in which the employer being billed is different from the employer for whom the individual is working. Perform reviews of individuals identified by this query to determine whether their health insurance coverage is being charged to the appropriate employer.

We provided a draft copy of this report to Department officials for their review and comments. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report.

Department officials stated that they have since implemented a NYBEAS query that has resulted in millions of dollars of recoveries and program cost savings. They also stated that, after careful consideration, they do not believe developing a NYBEAS edit check is a viable option.

Within 90 days of the final release of this report, Department officials shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising the steps they have taken to implement our report recommendations, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report include Donald Geary, Randy Partridge, Vicki Wilkins, Jennifer Bachinsky, Anthony Ilacqua, and Joe Paduano.

We wish to thank the Department's management and staff for the courtesies and cooperation extended to our examiners during this audit.

Very truly yours,

(Original signed)

Frank P. Patone, CPA  
Audit Director