

**Pelham Union Free School District**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**  
November 27, 2013

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Board of Education and Audit Committee  
Pelham Union Free School District  
Pelham, New York

We have performed the procedures described in the following pages, which were agreed to by the Pelham Union Free School District (District), solely to review the administration of employee benefits for the period July 1, 2012 through September 30, 2013.

The District's management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the District's administration of employee benefits. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

*Cullen & Danowski, LLP*

November 27, 2013

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures**  
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**Introduction:**

This report is organized by employee benefit function (General Background, Employee and Retire Health Insurance, Union Benefits, and Retirement Benefits) there are five sections under each function consisting of:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

**Corrective Action Plan:**

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

***Submission Information - Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

***Contact***

Mr. John Cushin  
(518) 474-5928

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**GENERAL BACKGROUND**

**Background:**

The Pelham Union Free School District ("District") provides benefits to employees of the district. These benefits are either mandated (payroll taxes, Teacher Retirement System [TRS], Employee Retirement System [ERS] etc.), or are required by either collective bargaining agreement or individual contract.

The proper administration of benefits is an important function of the District. The District has one Junior Accountant who is primarily responsible for the daily administration of the benefits. This person is also responsible for the payroll processing. She has been in this role for over 4 years and seems to understand her role and responsibilities. Additionally, the Staff Assistant Finance and Administration is responsible for tracking and invoicing retirees for their contribution to health insurance costs. This employee is new to the District.

Their work is overseen and monitored by the Assistant Superintendent for Business and the Treasurer.

In the 2012-13 fiscal year, the actual benefit costs were approximately:

Employee Retirement System	\$ 852,000
Teacher Retirement System	3,577,000
Social Security	2,560,000
Worker's Compensation	211,000
Unemployment Insurance	40,000
Health Insurance	6,395,000 (net of certain reimbursements)
Union Benefits	474,000
Retirement Payouts	<u>129,000</u>
 Total Benefit Costs	 <u>\$14,238,000</u>

**Summary:**

Overall we found the benefits function to be operating well, and the files to be easily reviewable. District staff is knowledgeable about the requirements of their responsibilities.

We recommend that the District consider implementing the recommendations noted below to further strengthen internal controls and improve operational efficiencies related to the employee benefits activities.

**Procedures:**

We applied the following agreed-upon procedures, which the Board of Education (Board) and the management of the District agreed to, to determine the effectiveness related to the Benefits Administration area in complying with policies and procedures of the District during the period July 1, 2012 through September 30, 2013.

**Employee Benefits**

- Reviewed Board policies and District procedures related to the benefits for employees.

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- Interviewed District personnel responsible for insurance benefits related to billings, collections and provider payments for ensuring the accuracy of the data and that the changes to enrollments were handled in a timely manner.
- Reviewed billings and collections to ensure proper segregation of duties and identify opportunities for operational efficiencies within the function.
- Compared the insurance benefits provided to employees to the respective bargaining unit contract requirements.
- Reviewed employee benefits related activity for the period and for each type of insurance benefit:
  - Selected 1 month to test the invoices of each insurance provider to ensure that the payments were accurate, processed timely and properly supported (e.g., reconciliation documentation).
  - Selected 30 active employees enrolled in each insurance benefits plan to ensure proper deductions from employees, payments to the plan providers were accurate and timely, and rates were in compliance with approved plans.
  - Selected 20 retirees enrolled in District benefits plans to ensure accuracy of their payments and verify their eligibility.
  - Reviewed general ledger account activity during that time period for unusual transactions or entries. Discussed any noted items with District personnel.

**Findings:**

- During our interviews and through review of general ledger account activity during the time period, we found that the reimbursement from retirees is being accounted for as source of revenue. It is more appropriate to consider this reimbursement as a reduction of the expenditure.
- We noted that the District has a significant amount of billings to third parties, but utilized spreadsheets to track this activity. It may be more efficient to utilize the Accounts Receivable module of Finance Manager for billings and collection activity. This would improve the segregation of duties related to these operations.

**Recommendations:**

1. We recommend that the District consider accounting for the reimbursement of health insurance from retirees as a reduction of health care expenditures as opposed to a source of funding.
2. We recommend that the District consider implementing the Accounts Receivable module of Finance Manager to improve the efficiency and internal controls related to District billings.

**EMPLOYEE HEALTH INSURANCE**

**Background:**

Health insurance is both the largest dollar expenditure and the most complicated benefit provided by the District. The net cost to the District in 2012-13 was \$6,395,000. The vast majority of the costs related to health insurance is based on requirements of the collective bargaining agreements. These agreements define the coverage to be provided, as well as the cost of coverage to be borne by the District and the cost to be borne by

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the employees. The percentage of costs covered by the employees varies based on the collective bargaining agreements. The allocation of the cost of coverage during retirement is also covered under these agreements.

The majority of coverage is provided by the State Wide School Cooperative Health Plan (SWSCHP). Each month the District is invoiced for the coverage provided. The Junior Accountant reviews this invoice, confirms changes from the prior month, prepares a reconciliation from the prior month's invoice and approves payment and then the Assistant Superintendent for Business reviews the invoice and authorizes the payment. The same procedure is followed for the payments to the Health Plan of Greater New York, which is an alternative health plan available to the employees.

Listed below are some of the key considerations that make health insurance administration relatively complex:

- Calculating and administering the proper employee share of the expense
- Ensuring accuracy of the invoice
- Reconciling changes in coverage to the invoice and the payroll deduction for the employee share
- Administering the payments for retirees and billing and collecting the appropriate share from the retiree (or surviving spouse)
- Reimbursement of Medicare costs for certain retirees
- Payment to employees who decline health insurance coverage

**Summary:**

Overall we found that the administration of the employee health insurance plan is operating well. District staff are knowledgeable about the requirements of their responsibilities. Based on our recommendation, the Junior Accountant implemented a procedure a few years ago to reconcile each monthly insurance invoice independently, which has successfully formalized the reconciliation process.

We recommend that the District consider implementing the recommendations noted below to further strengthen internal controls and improve operational efficiencies related to the employee benefits activities. This includes preparing a checklist to ensure that all tasks associated with the first payrolls of the year are completed.

**Procedures:**

- Reviewed employee benefits related activity for the period and for each type of health insurance benefit:
  - Selected 1 month and tested the invoices of each health insurance provider to ensure that the payments were accurate, processed timely and properly supported (e.g., reconciliation documentation).
  - Reviewed payroll deduction matrix to bargaining unit contract language to ensure that the amounts agreed.
  - Independently performed reconciliation from the health insurance enrollee listing to the payroll records and the Human Resources records recorded in Finance Manager.
  - Selected 30 active employees enrolled in each health insurance benefits plan to ensure proper deductions from employees, payments to the plan providers were accurate and timely, and rates were in compliance with approved plans.

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- Reviewed general ledger account activity during that time period for unusual transactions or entries. Discussed any noted items with District personnel.

**Findings:**

We reviewed invoices of each health insurance provider to ensure that the payments were accurate, processed timely and properly supported (e.g., reconciliation documentation) and found no exceptions. The Junior Accountant prepares a reconciliation by person for each invoice. However, this reconciliation is not attached to the invoice. The invoice is reviewed by the Assistant Superintendent for Business.

Review of payroll deduction matrix to bargaining unit contract language found:

- The HIP rate for family coverage is greater than the SWSCHP rate by \$287 per month for 2013-14. Currently there are no employees enrolled in family coverage in the HIP plan; however, there is no language in any bargaining unit contract which indicates that the employee should be responsible for the difference if the rate is higher. We were informed that the District is considering the options available.
- Review of 30 active employees enrolled in each health insurance benefits plan to ensure proper deductions from employees, payments to the plan providers are accurate and timely, and rates are in compliance with approved plans revealed that the teacher group was not updated at the start of the 2013-14 school year for the new payroll deduction rates for health insurance. The Junior Accountant typically will update the teacher employee deduction amounts with the new health insurance rates in the summer, however, the change was not processed timely this year. The update took place for the first pay period in October and included all retroactive amounts. The amounts involved were insignificant.

Independent reconciliation of the health insurance enrollee listing to the payroll records and the Human Resources records recorded in Finance Manager found:

- One employee's payroll deduction amount for health insurance was incorrect. Her payroll deduction was at the family rate; however, her coverage by SWSCHP is for 2 people. A change form was submitted in May 2009 for a change to take place at the end of June 2009 from family coverage to 2 people. The change was made with the health insurance provider; however, this change was never made to the employee's payroll deduction amount. The District has since calculated the amount owed to the employee to be \$363 for the last 4.25 years. This amount will be reduced from her 2013-14 medical premium withholdings.

**Recommendations:**

We recommend that the District consider implementing the following measures to further improve internal controls and operational efficiencies related to administering the employee health insurance benefits function:

3. The Junior Accountant should attach each reconciliation to the respective invoice as documentation to the invoice amount. The invoice along with the reconciliation should then be forwarded to the Assistant Superintendent for Business for review and approval.

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4. The District should consider adding wording to bargaining unit contracts during the next contract negotiations which requires employees to be responsible for any additional cost above the SWSCHP rate.
5. A checklist should be prepared for the tasks required to be completed for the first payroll of each fiscal year (July and September). This checklist should be completed by one employee and reviewed and approved by another employee. This will help ensure that all items associated with the first payroll of the year have been addressed.

**RETIREE HEALTH INSURANCE**

**Background:**

The Staff Assistant Finance and Administration bills retirees for their contribution amount to the cost of health insurance based on contract language. An invoice for each retiree is prepared quarterly. Payment is submitted either quarterly or once a year by the retiree. The Staff Assistant Finance and Administration maintains an Excel spreadsheet to track the retiree billings and payments. Additionally, the Staff Assistant Finance and Administration receives and processes the payments for the billings.

**Summary:**

Overall we found that the administration of the retiree health insurance plan was adequate. There were some minor enhancements noted below that would result in more efficient operations. This includes exploring the use of the Finance Manager Accounts Receivables Module for retiree and Cobra billings, which would result in better segregation of duties. Additionally, a clearly documented matrix of calculations for retiree billing that is prepared by one employee and reviewed by a second employee would assist in efficiently billing retirees.

**Procedures:**

- Reviewed employee benefits related activity for the period and for each type of health insurance benefit:
  - Reviewed the matrix for retiree health insurance contribution amounts and compared to the language in each bargaining unit contract.
  - Selected 20 retirees enrolled in District health insurance plans to ensure accuracy of their payments and verify their eligibility.
  - Selected 20 retirees not contributing to the District health insurance cost and compared to bargaining unit contract language to verify their eligibility.

**Findings:**

Review of the matrix for retiree health insurance contribution amounts found:

- The District maintains a spreadsheet to account for billings and collections. It may be more efficient to use the Accounts Receivable module of Finance Manager to record billings and collection.
- The Excel spreadsheet used to document the amounts invoiced and received from retirees for health insurance contributions for the 2012-13 school year was unavailable. This work was done by a former employee.



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- We found that the 2013-14 matrix for retiree health insurance contribution amounts is complex and not clearly documented. The matrix is not reviewed by a second employee. Our review of the matrix found two errors in the Excel Spreadsheet used for the calculations of retiree contribution amounts for health insurance. However, no retiree currently has that type of coverage. One error was in the family/Medicare coverage type calculation where a rate was not updated. If this contribution amount was used, the retiree would have been overbilled by \$48 per quarter. The second error was in the retiree pays 25% category, where the retiree would have overpaid by \$145 per quarter if billed at the rate documented in the spreadsheet.

Review of retirees enrolled in District health insurance plans to ensure accuracy of their payments found:

- There is no mechanism in place to track retirees turning age 65. We found one instance where a retiree was billed and paid for the full year of coverage in July 2013; however, the retiree turns 65 years old in March 2014 and will change to a lower Medicare rate. The District owes the retiree \$124.32 for the 4 months at the lower Medicare rate. According to district personnel, the procedure is not to issue a credit in 2013-14, but rather the difference will be adjusted on the July 2014 invoice.
- The District's practice has been to provide retirees and spouses of retirees of the teacher's bargaining unit with the full reimbursement amount for Medicare part B. However, this practice is inconsistent with language in the teachers' contract. The contract states the District shall reimburse Medicare Part B percentages on the same basis as applied to the retiree health premiums as set forth in Article VI, Section A (2)(c). This Article sets the requirement of the retiree to meet a minimum requirement of service years or they are required to pay a portion of health insurance. Additionally, this Article requires the District to only cover 50% of the cost of a retiree spouse's health insurance coverage in retirement. The District is aware that its practice is inconsistent with the teachers' contract language and is working with the Teacher's Union to change this practice.
- The District provides full reimbursement of Medicare Part B to surviving spouses. The teachers' contract is silent as to how the District is to handle the cost of health insurance for surviving spouses. The practice has been for a surviving spouse to be covered by the District, however, at full cost to the individual. The reimbursement of Medicare Part B is inconsistent with this practice.

One retiree who retired August 31, 2004, from the custodial bargaining unit is not contributing any amount for health insurance coverage for himself as required by the bargaining unit contract he retired under. He does contribute the appropriate percentage for his spouse. This retiree retired after the contract ending June 30, 2004 expired; however, prior to the settling of the new contract which was not settled until 2006. Contract language from the contract dated July 1, 2004 – June 30, 2008 states the Board will pay 100% of the cost of the individual coverage, and 50% for the cost of family coverage, both less the retired employee's contribution to premium, as set forth above. The retired employee's contribution to premium shall be the same as the active employee's contribution to premium. Additionally, there is no documentation in the retiree's file documenting this arrangement.

**Recommendations:**

We recommend that the District consider implementing the following measures to further improve internal controls and operational efficiencies related to administering retiree health insurance benefits:

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6. The District should consider using the Accounts Receivable module of Finance Manager to record billings and collection. The AR module will improve segregation of duties as one employee will prepare the billings and another employee will mark the invoices paid.
7. The District should require one person clearly document the calculations in the matrix for the retiree billings and a second person review and approve the matrix as the calculations are complex and vary in each bargaining unit contract.
8. The District should review the system of billing retirees that turn 65 years old during the year to ensure refunds due the retiree are identified and processed on a timely basis.
9. The District should consider clearly documenting the District's requirements with respect to the reimbursement of Medicare part B during the next contract negotiations with the bargaining units.
10. The District should work with its attorney to determine if it is appropriate for the retiree, who retired during an expired contract, to continue to not contribute towards the cost of health insurance in retirement. If it is determined that the retiree should contribute the appropriate percentage toward health insurance, the District should review the employee files to determine if any other such cases exist.

**UNION BENEFITS**

**Background:**

Union Benefits are based on the various collective bargaining agreements. For each agreement there is a flat rate per employee, which is paid to the Union Trust Fund as required under the agreements. Most union benefits are invoiced from a third-party vendor or from the bargaining unit's welfare fund. An independent reconciliation is performed by the Junior Accountant. The invoice is reviewed and approved by the Assistant Superintendent for Business.

**Procedures:**

We reviewed the reconciliation prepared by the Junior Accountant for the contribution amount paid to the Teachers Association Trust Fund. We verified the number of teachers on staff at the time of the invoice and agreed the negotiated rate per teacher from the bargaining unit contract to the invoice.

**Findings:**

We reviewed the reconciliations for the life insurance, custodial dental, clerical dental and vision, and administrator dental and vision invoices. We also independently agreed the insurance invoice enrollee listing to the Finance Manager Human Resources listing of employees in the bargaining unit, employee contract language and COBRA payments made and no exceptions were noted.

**RETIREMENT EXPENSES (ERS & TRS)**

The cost of ERS and TRS is based on the total salary of employees multiplied by a rate that varies depending on the "tier" of the employee. Generally the tier is established when the employee first joins the retirement system. In addition, the employee share of ERS and TRS is based on the tier of the employee and the District is responsible to deduct these amounts from the employees and remit these funds to the retirement systems.

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The reporting systems from the District to the two state retirement systems are sophisticated so the potential for error is limited. There are regular uploads of data from the payroll system into the state retirement systems. Based on this data, the system has an internal process to ensure that the proper amounts are withheld from the employees and that the billing to the District is accurate. Apparent errors are noted and the Junior Accountant addresses the issues that are identified.

Procedures:

We reviewed the invoices for ERS & TRS and agreed the amounts to the General Ledger.

Findings

No exceptions were noted.

