
Audit Report

Herricks Union Free School District

Special Review

SD-0105-6

April 20, 2005

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234





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April 20, 2005

Mr. Peter Grisafi
Board President
Herricks Union Free School District
Community Center
999-B Herricks Road
Herricks, New York 11040

Dear Mr. Grisafi:

The following is our final report (SD-0105-6) on the Herricks Union Free School District (District). The review was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this review. I appreciate the cooperation and courtesies extended to the staff during the review.

Sincerely,

Michael Abbott

Enclosure

cc: T. Savo, J. Kadamus, R. Bullis, B. Porter, C. Szuberla, C. Foster (DOB), W. Campbell (OSC), J. Bierwirth (Superintendent), J. Mapes (District Superintendent), J. Blumenberg (Office of Attorney General)

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Results of the Review

The New York State Office of the Attorney General referred information to the State Education Department (Department) regarding allegations of improprieties by officials of the Herricks Union Free School District (District). The allegations, which were made by two individuals from the Herricks community, include misappropriation of District funds for health insurance premiums for retired teachers and administrators who retired between July 1, 1999 and June 30, 2004.

To assess the validity of the allegations, the Office of Audit Services completed a desk review and contacted District officials to obtain clarification and additional documentation. Based on the explanations provided by District officials and information reviewed, we concluded the District has made significant improvements in its financial oversight procedures for retiree health insurance and is aggressively pursuing collections with each retiree who was incorrectly billed. Further, our review did not disclose any indication of malfeasance on the part of District officials.

Retiree Health Insurance Premium Expenses

Allegations were made that funds were used inappropriately for excessive payments of health insurance premiums for teachers and administrators who retired between July 1, 1999 and June 30, 2004 by an amount estimated at \$75,409. The contractual agreement with teachers required retirees to pay 15 percent of the cost of individual coverage for health insurance, while the District paid the remaining 85 percent.

However, since July 1, 1999, the retirees have been paying only 5 percent of the premium and the District has been paying 95 percent. Early in the 2004-05 school year, a business office review of retiree billings and contracts revealed the discrepancy in the retiree-billing rate starting in July 1999. It is unclear to us whether a second level of review of the past billings was done at the time they were prepared. As a result, the billing error appears to be a clerical error resulting from a lack of supervisory oversight.

Under-Billing of Retiree Health Insurance

Upon discovery of the billing error, the Assistant Superintendent for Business immediately notified the Superintendent, who then brought the situation to the attention of the Board, other District administrators, the external auditing firm, and the community. The District prepared a tentative list of 53 retirees who owed the District about \$75,409. The list includes one retired central office administrator. On October 12, 2004, the District sent its first letter to retirees, who were under-billed for their health insurance premium, notifying them of the billing error and the amount they each owed the District.

The attorney for the District reviewed the retired administrator's contract and determined the contract was silent on the issue of insurance premiums. Although the contract was not specific on the subject, it has been past practice of the District to pay 95 percent of health insurance premiums for central administrators, including those who retire. On the advice of counsel, the Board removed the administrator's name from the list.

After further consultation with the attorney for the District and with information from the health insurance provider about Medicare reimbursements due certain retirees, the District determined that 55 retirees owed the District \$69,870, not \$75,409 as originally determined. The District then prepared detailed analyses for each retiree. The detailed analyses were mailed to each retiree with a second letter dated November 1, 2004.

To date, 20 retirees have repaid the amount owed in full and another 27 retirees have made partial payments for total receipts of \$31,264.

Actions to Recover Funds

The District sent invoices dated January 28, 2005 to each retiree in its continuing effort to recover 100 percent of the health insurance premiums owed the District. Further, the District has outlined its plan to collect any balances due including mailing follow-up invoices on March 1, 2005 and follow-up phone calls on March 15 to any retiree with a balance due. In addition, the District has strengthened its process for billing retirees for health

insurance premiums by adding additional levels of review by their internal auditor and internal claims auditor.

Conclusion

The District is aggressively pursuing collection and is documenting each payment and all conversations with retirees. The Assistant Superintendent for Business will continue to provide updates of the status of collections to the Board, the public, and the Office of Audit Services until collections are complete.

Recommendations

1. Continue to monitor the progress of collection activities until all monies owed the District have been collected.
2. Keep the Office of Audit Services apprised of the status of collections with biweekly reports by individual retiree.
3. Clarify the language of administrators' contracts as it pertains to the cost of health insurance premiums while employed and after retirement.
4. Provide for additional level(s) of review of retiree billings to ensure compliance with collective bargaining agreements and other employee contracts.

Comments of Herricks District Officials

District officials provided a formal written response to the review, which is appended to the report.

Contributor to the Report
Herricks Union Free School District

- Nancy Taylor, CPA, Audit Manager

In July 2004, while in the process of implementing a new agreement between the Herricks Teachers Association and the Herricks UFSD, the Assistant Superintendent for Business, Helen Costigan, and the Assistant Superintendent for Instruction, Ron Barnes, noticed that the employee payments for certain individuals appeared to be incorrect. Upon further examination they determined that they were, in fact, incorrect. This information was immediately shared with the Superintendent and then with the members of the Board of Education.

Having determined that there had been an error for some individuals, the Assistant Superintendent for Business and the Business Office staff commenced a review of the contribution levels of all active and retired Herricks employees to determine who had been charged correctly and who had not. Since the contribution rates vary from one bargaining unit to another and since contribution rates have changed over time from one agreement to another, this required a very careful review.

The investigation of active and retired employees and a review of prior records determined that the problem was with one class of individuals. Teachers who retired during the course of the contract covering the period from July 1, 1999 through June 30, 2004 were charged correctly while they were active, but incorrectly once they retired. These individuals continued to be charged incorrectly through the date of the investigation.

Under the agreement covering the period July 1, 1999 to June 30, 2004 teachers agreed to increase their share of Empire Plan health insurance premiums for individual coverage for the individual portion of family plans from 5% to 15%. A parallel agreement was also signed with the administrators association (covering principals, assistant principals, directors and department chairs, but not central office administrators) with identical terms. The investigation determined that all of the 55 teachers who retired at any date between July 1, 1999 and June 30, 2004 had been charged at the new rate of 15% while active but had reverted to 5% upon retirement. No administrator covered by the agreement retired during this period. The total amount under-billed for the 55 teachers equaled \$69,870.10.

In addition to the 55 teachers who retired, the only other individual about whom there was a question was an Assistant Superintendent who retired in 2000. She was covered by an individual contract written in 1993. This contract and the amount she had contributed while both

active and retired were reviewed by legal counsel to the District. He advised the Board of Education that the terms of her contract covering health insurance were vague and that past practice with other retired central office administrators would not support a case against her. (Legal counsel also reviewed the contracts of the current Superintendent and two current Assistant Superintendents and indicated that the wording of their terms was clear.)

All of this information was shared with the Board of Education, including names and amounts. The Superintendent announced the problem in detail at a public meeting of the Board of Education. In addition, the issue was discussed with officers of the teachers and administrators associations as well as the officers of the retired educators association.

A monthly analysis was computed for each affected retiree and bills were mailed. As of April 2005 the District has received \$31,264.40 of which 20 retirees have paid in full and 27 have made initial payments.

A thorough review was made to determine how this error was made. The recollection of the individuals involved at the time was contradictory. No written documents were found supporting anyone's view. Accordingly this was explained to the Board. No one involved in the error was in a position to benefit by it either at the time or subsequently

Currently procedures have been put in place which require employee contribution rates to be calculated by the Assistant Superintendent for Business and reviewed, upon request, by the internal auditing firm of Pappas and Company.

In response to the recommendations of the report:

1. The District will continue to aggressively pursue collections.
2. The District will remain in contact with the Office of Audit Services with biweekly reports prepared by the district treasurer.
3. The language of administrators' contracts has been reviewed and contain clear language regarding health insurance premiums for when employed and for when retired.
4. A review of contribution rates has been conducted to assure compliance with bargaining agreements and will continue to be reviewed.