

**Rockville Centre
Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
December 1, 2016**

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

To the Board of Education and Audit Committee
Rockville Centre Union Free School District
Rockville Centre, New York

We have performed the procedures described in the following pages, which were agreed to by the Rockville Centre Union Free School District (District), solely to determine the effectiveness related to the employee benefits administration area in complying with policies and procedures of the District for the period January 1, 2016 through November 30, 2016.

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 employee benefits administration area in complying with policies and procedures of the District. 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

December 1, 2016

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ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures
For the Period Ended November 30, 2016

Introduction:

This report is organized by category and there are five sections under each category 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 any recommendations).

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

Contact

Office of Audit Services
(518) 473-4516

ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended November 30, 2016

EMPLOYEE BENEFITS ADMINISTRATION BACKGROUND

Background:

The District provides various benefits to the employees including health, dental, optical, and life insurance as well as required pension contributions. These benefits are either mandated (payroll taxes, NYS Teachers' Retirement System [TRS], NYS and Local Employees' 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 full-time benefits clerk who is primarily responsible for the daily administration of the health benefits. She has been in this position for several years and understands her role and responsibilities at the District. Additionally, there are various account clerks that handle payroll, accounts receivable and accounts payable/cash disbursements related to the benefits area. These employees have been at the District for a number of years and are experienced in their roles and responsibilities. Their work is overseen and monitored by the Assistant Superintendent for Business and Personnel and the Treasurer. The District utilizes the Finance Manager financial system (Finance Manager), which is a sophisticated product that has been tailored to meet the requirements of New York State school districts.

The benefits costs for the 2015-16 fiscal year (actual) and the 2016-17 (adjusted budget) were:

<u>Description</u>	<u>2015-16 Actual</u>	<u>2016-17 Budget</u>
Employees' Retirement System	\$ 1,654,737	\$ 1,130,769
Teachers' Retirement System	6,561,236	5,702,000
Social Security/Medicare	5,152,552	5,281,982
Workers' Compensation	513,585	550,000
Life Insurance	34,523	60,000
Unemployment Insurance	14,587	97,000
Health and Dental Insurance, Net of Contributions	10,652,739	11,385,099
Union Welfare Benefits	773,104	855,400
Total Benefits Costs	<u>\$ 25,357,063</u>	<u>\$ 25,062,250</u>

Summary:

Overall we found the administration of the benefits function to be operating well. The files were well maintained and easily reviewable. District staff is knowledgeable about the requirements of their responsibilities and assisted us by providing all of the requested items. During our testing, we noted only two minor errors in processing. We recommend that the District consider implementing the recommendations noted below to further strengthen internal controls and improve operational efficiencies related to the administration of benefits activities.

ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended November 30, 2016

Procedures:

Our procedures, as per the engagement letter dated July 1, 2016, were as follows:

- Review Board policies and procedures related to insurance benefits regarding review and approval of invoices from service providers, as well as costs charged to employees and retirees.
- Review all collective bargaining agreements and individual employee agreements to gain an understanding of the benefit related obligations of the District.
- Interview 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 are handled in a timely manner.
- Review billings and collections related to insurance benefits to ensure proper segregation of duties and identify opportunities for operational efficiencies within the benefits function.
- Compare the insurance benefits provided to employees to the respective bargaining unit contract requirements.
- Compare invoices to payroll records to ensure accuracy of payroll deductions.
- Review the District's reconciliation of the monthly invoice for each insurance provider to the District's employee and payroll records. In the event that the reconciliation was not prepared, we will assist the District in performing the reconciliation. If necessary, we will also assist the District in automating the reconciliation process to provide greater efficiency and accuracy.
- Review accounting for other benefits and review supporting documentation as appropriate.
- Review employee benefits related activity and for each type of insurance benefit:
 - Select 2 months and test the invoices of each insurance provider to ensure that the payments are accurate, processed timely and properly supported (e.g., reconciliation documentation).
 - Select 50 active employees enrolled in the 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.
 - Select 25 retirees enrolled in the health insurance benefits plan to ensure accuracy of their payments and verify their eligibility.
 - Select a sample of any employees on unpaid leave during the period to ensure that the District collected their health insurance contribution amounts, if applicable.
 - Review general ledger account activity during that time period for unusual transactions or entries. Discuss any noted items with District personnel.
 - Review the annual recalculation of cost allocation as of January 1st for accuracy.

Findings:

Review of Board policies and District procedures related to the benefits noted:

- There are no written, formal procedures documenting the key roles and responsibilities performed within the employee benefits area, which would assist the Benefits Clerk in performing her duties.

ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended November 30, 2016

Interview of District personnel responsible for insurance benefits:

- There is a thorough understanding of the administration of all benefits. There is adequate segregation of duties and oversight to the activities.

Review billings and collections related to insurance benefits:

- The processes associated with billings and collections for benefits administration appear to have adequate controls (e.g., properly segregated) in place.
- During our review, we noted one instance in which the District reimbursed a Board member for Medicare costs. While this is a required payment for Civil Service employees, we believe this is not appropriate in the case of a Board Member receiving health insurance (at the Board members cost).
- We noted one billing error in which a retiree was under-billed by \$60 for her share of medical insurance. The District will adjust the billing and collect the amount due. This error was due to a relatively complex set of circumstances and appears to be a one-time miscalculation.

Comparison of the insurance benefits provided to employees to the respective bargaining unit contract requirements:

- We found all coverages were in line with collective bargaining agreements, individual contracts or in the case of confidential employees a Board policy.

Review of the District's reconciliation of the monthly invoice for various benefit programs to the District's employee and payroll records noted:

- Health insurance reconciliations are being performed on a regular basis by the Benefits Administrator. We noted no exceptions. All payments made for health insurance were confirmed to active employees, retirees or other appropriate individuals. Calculations related to employee shares of these costs (payroll deduction or retiree billings) were correct.
- For one group of employees, the cost of dental coverage and vision coverage exceeds the allowance in the collective bargaining agreement for these costs. We confirmed that the District is properly recovering the difference through payroll deductions.

Review of accounting for other benefits and review of supporting documentation as appropriate:

- Although accounting for other benefits seems to be successfully performed, several claims were not signed-off by the Claims Auditor.
- Although there were individual files maintained for non-standard billings to employees or retirees for health insurance, the calculations were not clearly documented nor were they reviewed by a second person. As these are relatively complex calculations and circumstances we will recommend more formal documentation and review.
- We noted that for payments for the Benefit Trust Funds that only one person signed-off on the expenditure. All expenditures should be authorized by the Purchasing Agent and payment authorized by a second employee.

Review employee benefits related activity:

- We found no errors in any of the activities in the other budget codes.

ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended November 30, 2016

Review of general ledger activity:

- There were no findings or issues found during our review of the general ledger account activity.
- We noted that the District has not budgeted for the full cost of TRS for the past several years. The plan is at, or near, year end to appropriate some of the ERS reserve to fund the necessary budget increase; however, this is not the preferred method. The budget for ERS (and TRS) should be a best estimate of the full year expenditure. The appropriation of the ERS reserve should be made (if the Board desires) as part of the budget process.

Recommendations:

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to benefits administration:

1. Accounts Receivable Module

During our review, we noted that the District uses a manual system to monitor billings for health insurance. These billings are for the retirees' share of health insurance costs and billings related to COBRA.

We recommend that the District consider implementing the NVison Accounts Receivable module. This could be used for all District billings and would provide efficiencies and formalize certain internal controls over billings and cash applications.

2. Non- Standard Billings

On occasion, due primarily to timing of benefits and billings, the amounts to bill a retiree or employee is not a standard amount. In these cases we recommend that the calculation be formally documented and a second person review and sign-off on the calculation. This will provide a better audit trail and help ensure that the calculations are correct.

3. Medicare Reimbursement

During our review, we noted that the District reimbursed a Board member who was utilizing the district policy for health insurance. This resulted in a net cost to the District when there should be no cost to the District for allowing a Board member access to the District health insurance. We recommend that the District review this situation with legal counsel and respond accordingly. Consideration should be given to determine if there are similar instances within the District.

4. Benefit Trust Invoices

During our review, we noted that only one person from the District was involved in the payments to Benefit Trust Funds. While we found no errors in our testing, we recommend that an administrator review and sign-off on all requests for payment to a third party.

5. Claims Auditor Review

During our review, we noted a couple of instances in which the Claims Auditor did not initial the claim package to signify his review and approval. We recommend that the District remind the Claims Auditor to perform this for each claim package reviewed.

ROCKVILLE CENTRE UNION FREE SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

To: William H. Johnson, Ed.D., Superintendent of Schools
From: Robert Bartels
Subject: Corrective Action Plan and Response to Independent Accountant's Report On
Applying Agreed-Upon Procedures
Date: March 8, 2017

The Independent Accountant's Report on Applying Agreed-Upon Procedures submitted by Cullen & Danowski, LLP contained a number of comments and recommendations related to the employee benefits administration area and compliance with District policies and procedures. This report has been thoroughly reviewed and responses and corrective actions identified as necessary. Each of those responses and corrective actions is listed in detail below following the audit findings as they were presented in the management letter. Numbers have been assigned to each of the findings to assist in future discussions and reports on the status of these findings and corrective actions. It should be noted that the auditors did not identify any material weaknesses. It should also be noted that while all of the audit recommendations would add additional controls, there will always be additional controls to be recommended. Each recommendation has been reviewed and responded to as deemed appropriate by the business office.

1. Accounts Receivable Module

Recommendation:

We recommend that the District consider implementing the NVision Accounts Receivable module. This could be used for all District billings and would provide efficiencies and formalize certain internal controls over billings and cash applications.

Response:

Agreed. The District is working with Finance Manager to upgrade the accounting software to the NVision package. At that time, the Accounts Receivable module will be implemented for invoicing for Benefits. This recommendation will be implemented by the Assistant Superintendent for Business.

2. Non- Standard Billings

Recommendation:

On occasion, due primarily to timing of benefits and billings, the amounts to bill a retiree or employee is not a standard amount. In these cases we recommend that the calculation be formally documented and a second person review and sign-off on the calculation. This will provide a better audit trail and help ensure that the calculations are correct.

Response:

Agreed. This recommendation has been implemented. The calculations for all future billings will be formally documented and the District Treasurer will review and sign-off on the calculation.

3. Medicare Reimbursement

Recommendation:

During our review, we noted that the District reimbursed Medicare B contributions to a Board member who was utilizing the district policy for health insurance. This resulted in a net cost to the District when there should be no cost to the District for allowing a Board member access to the District health insurance. We recommend that the District review this situation with legal counsel and respond accordingly. Consideration should be given to determine if there are similar instances within the District.

Response:

Agreed. The District has been advised by legal counsel that although access to the District health insurance is permitted to certain Board members, Medicare B reimbursement is not allowed based on Opinion 97-2 from the Office of the New York State Comptroller issued in 1997. This recommendation has been implemented by the Assistant Superintendent for Business and a reimbursement is being requested from the Board member.

4. Benefit Trust Invoices

Recommendation:

During our review, we noted that only one person from the District was involved in the payments to Benefit Trust Funds. While we found no errors in our testing, we recommend that an administrator review and sign-off on all requests for payment to a third party.

Response:

Agreed. The District Treasurer will review and sign-off on all future payments to Benefit Trust Funds.

5. Claims Auditor Review

Recommendation:

During our review, we noted a couple of instances in which the Claims Auditor did not initial the claim package to signify his review and approval. We recommend that the District remind the Claims Auditor to perform this for each claim package reviewed.

Response:

Agreed. The Claims Auditor has been reminded that all claims are to be initialed to signify his review and approval.