



Watkins Glen Central School District Health Insurance Cost Savings

Report of Examination

Period Covered:

July 1, 2013 – March 31, 2016

2016M-144



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

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.

Following is a report of our audit of the Watkins Glen Central School District, entitled Health Insurance Cost Savings. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Watkins Glen Central School District (District) is located in the Towns of Dix, Hector, Orange, Reading and Tyrone in Schuyler County and the Town of Catlin in Chemung County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The District Clerk is responsible for maintaining health insurance eligibility records, while the Treasurer is responsible for maintaining accounting records for health insurance and the health insurance buyout incentives.

The District operates two schools with approximately 1,120 students and 250 employees. The District's budgeted general fund appropriations for the 2015-16 fiscal year are \$25.5 million, which are funded primarily with State aid and real property taxes.

As of March 2016, the District provided health insurance coverage to 208 employees and retirees, with monthly premiums ranging from \$531 to \$1,483 for the four different plans¹ offered. The employees' collective bargaining agreements require the District to pay 85 percent or 87 percent of the health insurance premiums, depending on the agreement. Over the last 10 years, the District's health insurance expenditures averaged 10 percent of the District's total annual expenditures. During our audit period, health insurance expenditures averaged \$2.3 million² per year.

Objective

The objective of our audit was to determine whether District officials implemented measures to achieve health insurance cost savings and address rising health insurance costs by offering employees a buyout incentive. Our audit addressed the following related question:

- Did District officials achieve health insurance cost savings?

Scope and Methodology

We examined the District's health insurance cost savings for active employees for the period July 1, 2013 through March 31, 2016. We extended our scope to June 30, 2016 to project the health insurance premium cost savings for the remainder of the 2015-16 fiscal year.

¹ These plans include employee and spouse, employee and child, single person and family coverage.

² These expenditures include health insurance premiums and buyout incentive payments for active employees and retirees.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials**

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings.

Health Insurance Cost Savings

School districts are responsible for providing educational services in a cost-effective manner to ensure tax dollars are spent in a prudent and economical manner. The Board should annually evaluate employee health insurance costs incurred while providing educational services to determine whether the same or a better level of coverage can be obtained at a lower cost. The employees' collective bargaining agreements generally determine the amount the District and employees contribute to the cost of health insurance, and the District may offer employees who have other appropriate coverage an annual payment in lieu of health insurance coverage (known as a buyout incentive). Buyout incentives are advantageous to the District because the employees are paid amounts that are less than the health insurance premiums the District would have paid and advantageous to the employees because they can increase their incomes by the amounts paid.

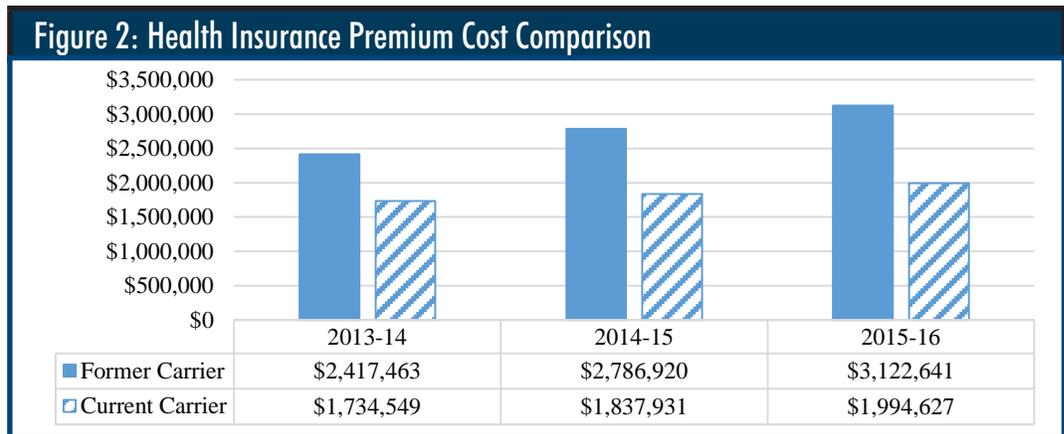
District officials achieved health insurance cost savings by changing health insurance carriers and offering employees a buyout incentive. From July 1, 2013 through June 30, 2016, the cost savings will total approximately \$3.9 million. We commend District officials for implementing these cost savings measures.

Figure 1: Cost Savings	
Premium Savings July 1, 2013 through March 31, 2016	\$2,477,914
Projected Premium Savings April 1, 2016 through June 30, 2016	\$282,003
Buyout Incentive Savings July 1, 2013 through June 30, 2016	\$1,110,233
Total	\$3,870,150

The District's health insurance rates increased three times during 2012-13, and premiums were projected to increase by 12 percent annually over the next four years based on estimates provided by the District's Board of Cooperative Educational Services (BOCES). Therefore, District officials assessed the benefits and costs associated with the District's health insurance coverage and pursued alternate coverage at a lower cost.

District officials changed health insurance carriers effective June 2013 and were able to offer two additional plans to employees. By switching carriers, the District saved a total of \$2.5 million from July 1, 2013 through March 31, 2016 while providing equivalent or

better coverage. In addition, we project that the District will save an additional \$282,000 through June 30, 2016³ for a total of \$2.8 million.



Furthermore, the District offers employees who have other appropriate coverage an annual buyout incentive payment. The District offered 96 employees an annual health insurance buyout incentive⁴ from July 1, 2013 through June 30, 2016 that cost the District \$201,000.⁵ If the District had not offered the buyout incentive, it would have paid a total of \$1.3 million in health insurance premiums for these employees. Therefore, the District achieved additional savings totaling \$1.1 million, resulting in overall savings totaling \$3.9 million.

We commend District officials for taking these costs savings measures.

³ We projected the former carrier’s costs based on estimates provided by BOCES, which administered the former health insurance plan. We projected the current carrier’s cost for the remaining three months of 2015-16.

⁴ The annual buyout incentive ranged from \$1,000 to \$3,500 depending on type of coverage.

⁵ The District approves the annual buyout incentive amount at the beginning of each year and payments are made in January and June. The District has encumbered the June 2016 payment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Watkins Glen

Central • School • District
Thomas J. Phillips • Superintendent of Schools

May 31, 2016

Office of the State Comptroller
Binghamton Regional Office
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

To Whom It May Concern:

The Office of the State Comptroller conducted an extensive risk assessment of the District operations and financial management processes covering the period of 2013 through 2016. The District has thoroughly reviewed the findings and we believe the audit accurately reflects the efforts of the District in relation to cost containment, specifically in the area of costs associated with District provided health insurance for employees. We appreciate the acknowledgement of our efforts to control the costs associated with this benefit. With the change of health care plans and providers, the District was able to contain costs of health insurance premiums during this time period. The District fully understands the costs associated with providing health insurance to employees is an on-going issue and costs associated with health insurance must be continually monitored with the goal of containing any premium increases, as well as the impact of those increases on budget development.

The District has responded to many fiscal challenges since 2009 and changing health insurance providers in an effort to contain costs was one step in a series of actions the District has taken to contain costs. District consolidation, including closing and selling the Middle School, consolidating to a single campus, merging sports teams with a neighboring district, consolidating transportation with the same District and multiple shared services initiatives with Schuyler County and Village of Watkins Glen municipal governments have all led to cost containment or cost savings.

The District will continue to move forward with the focus of containing operational costs in an effort to protect quality educational programming for the students we serve.

Sincerely,



Thomas J. Phillips
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials regarding the health insurance benefits, costs and coverage provided to employees.
- We reviewed collective bargaining agreements and information from the health insurance carrier regarding the benefits, costs and coverage provided to employees.
- We reviewed and compared health insurance coverage under the former and current health insurance carriers to determine whether employees received equivalent or better coverage.
- We calculated health insurance cost savings by comparing costs under the former and current carriers. We used the active employee enrollment in January of each year to calculate the costs for both carriers. We calculated the former carrier's cost using the premiums per the health insurance bill for June 2013 and projected a 12 percent premium increase for 2014-15 and 2015-16 based on supporting documentation. We calculated the current carrier's costs using the current premium. Using the number of employees enrolled in each coverage type as of January 2016, we compared the estimated costs under the former health insurance plan to the actual costs under the current health insurance plan to project additional cost savings for the remaining three months in 2015-16.
- We judgmentally selected four individuals with no expectation we would find more or fewer errors. We reviewed three biweekly payrolls for these four employees to determine whether employees contributed the correct percentages toward their health insurance costs in accordance with their collective bargaining agreements.
- We obtained a list of 96 employees who received the buyout incentive and verified that these employees were paid the correct amount per the collective bargaining agreements from 2013-14 through 2015-16. We also verified these employees were not receiving health insurance coverage.
- We calculated the District's buyout incentive cost savings by comparing the total buyout payments made to the 96 employees participating in the buyout to the health insurance cost for these employees if the District had to pay for full coverage for the period July 1, 2013 through June 30, 2016.

We conducted this performance audit in accordance with 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.

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