



Patchogue-Medford Union Free School District

Health Insurance Buyouts

2023M-21 | July 2023

Contents

- Report Highlights 1**

- Health Insurance Buyout 2**
 - How Should the District Offer a Health Insurance Buyout to Employees? 2

 - The District Made Health Insurance Buyout Payments that Were Not Always Cost-Effective 2

 - What Do We Recommend? 4

- Appendix A – Response from District Officials 5**

- Appendix B – Audit Methodology and Standards 7**

- Appendix C – Resources and Services. 9**

Report Highlights

Patchogue-Medford Union Free School District

Audit Objective

Determine whether the Patchogue-Medford Union Free School District's (District) health insurance buyout program is cost-effective.

Key Findings

Although the District's health insurance buyout program is generally cost-effective, the District could achieve greater savings by modifying the terms of the program. For example, the District should review the eligibility requirements of the program for married couples and family members employed by the District. For the 2021 calendar year, we found the District could have saved \$73,966 if it had more cost-effective buyout requirements.

Key Recommendations

- Perform a cost-benefit analysis and review the District's eligibility requirements to determine if the program is implemented in the most prudent and cost-effective manner.
- At the expiration of the current collective bargaining agreements (CBA) and individual employment contracts (contracts), consider negotiating with the various unions and individuals to exclude eligibility for health insurance buyouts to employees covered by the District's same health insurance plan through a spouse or parent employed by the District.

District officials agreed with our recommendations and indicated they planned to take corrective action.

Background

The District serves the Town of Brookhaven in Suffolk County.

The elected seven-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the District's chief executive officer responsible, along with the other administrative staff, for the day-to-day management under the Board's direction. The School Business Administrator supervises all business office operations, including the health insurance buyout program.

Quick Facts

Total Health Insurance Expense	\$49.6 million
Total Health Insurance Buyouts	\$2.5 million
Potential Savings for Buyouts Made In 2021 Calendar Year	\$73,966

Audit Period

July 1, 2020 – June 30, 2022

Health Insurance Buyout

School districts may realize savings, sometimes substantial, by paying employees an amount less than the annual cost of their health insurance premiums. A health insurance buyout is when an employee declines insurance in exchange for a cash benefit if they have health insurance coverage through a spouse or other family member. Offering a health insurance buyout can be mutually beneficial to both employer and employee.

How Should the District Offer a Health Insurance Buyout to Employees?

School districts can offer employees the option to decline health insurance in exchange for receiving a cash payment if the employee provides proof of coverage from another source such as through a spouse or other family member.

Health insurance buyouts are often provided pursuant to a CBA or individual contract. School district officials should, as a best practice, perform a cost-benefit analysis to help ensure the District's health insurance buyout program is structured to realize cost savings and that tax dollars are spent in a prudent and economical manner. To qualify for the health insurance buyout, employees should be required to provide documentation to the District to ensure that the employees have appropriate coverage available from another source. School districts may wish to advise their employees to compare their current plan with the alternative to weigh the benefits and risks of switching plans.

The District had six separate CBAs covering most of their clerical employees/aides, full and part-time operations staff, administrators, teachers and nurses. In addition, during our audit period, the District had 18 employees who were not covered under any of the CBAs, but instead were covered by their own individual contracts. The District has a health insurance buyout program which is available to employees in five of the six CBAs and three individual contracts.

The administrators' CBA excludes employees from participating in the buyout program if the employee has health insurance through the District from a spouse employed by the District. The remaining four CBAs, as well as each of the three individual contracts are silent regarding participation in the health insurance buyout program when an employee obtains their health insurance through a spouse employed by the District. The five CBAs and the three contracts are silent regarding participation in the buyout program for dependents who obtain their health insurance through a parent employed by the District.

The District Made Health Insurance Buyout Payments that Were Not Always Cost-Effective

In November of each year, employees may participate in the health insurance buyout for the following calendar year during an open enrollment period.

Payments are then made to participating employees during the months of June and December of the following year.

Some of the buyout payments were made to participating employees who opted out of their health insurance coverage because they obtained coverage from a spouse or parent working at the District and covered under the District’s health insurance. During the audit period, the District had health insurance costs totaling \$49.6 million. The District made payments totaling \$2.5 million to employees who participated in the District’s health insurance buyout program (Figure 1).

Figure 1: Health Insurance Buyout Payments

Payment Date	Total Employees Receiving Insurance Buyout	Total Health Insurance Buyout Payments	Spouse/Dependent Receiving Insurance Buyout	Total Payments to Spouse/Dependent
December 2020	239	\$553,491	28	\$33,926
June 2021	235	\$578,044	28	\$36,983
December 2021	268	\$607,227	28	\$36,983
June 2022	305	\$777,348	34	\$49,497
Total		\$2,516,110		\$157,389

Total payments to employees who opted out of their health insurance coverage, but who were covered under the District’s health insurance policy by obtaining coverage through a spouse or parent employed by the District, totaled \$157,389. The average payment ranged from \$1,212 to \$1,456 per employee for the four payment dates in our audit period.

While these employees have the option to obtain coverage under a family plan instead of having individual coverage separate from a spouse or parent, obtaining family coverage does not usually result in a cost savings to the District. Instead, it normally increases the District’s health insurance costs. For 2021, we reviewed the 56 buyout payments made to 28 employees totaling \$73,966, which were paid to employees covered by a spouse or parent working at the District. In the case of these 28 employees, the District’s health insurance cost increased when the employee opted to obtain family coverage because the cost of having the employee enroll under the parent’s or spouse’s plan exceeds the cost of providing individual coverage to both employees, without adding the cost of providing the employee the buyout. For example, during calendar year 2021:

- The District paid \$23,909 for family coverage or \$2,949 more for two employees married to each other than the District would have paid for two individual plans. In addition, District officials paid one of the two employees \$2,580 for not taking single coverage. As a result, the buyout program increased the District’s health insurance costs by \$5,529.

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- The District paid \$27,774 for the cost of family coverage for two employees who are married to each other; whereas the cost of two individual plans would have cost the District \$25,072. Therefore, the District was paying an additional \$2,702 for the family coverage. As with the previous example, the District did not achieve any cost savings and issued a buyout payment to one of the two employees, totaling \$2,580, which brought the District's increased cost to \$5,282.

We asked the Superintendent why one of the six CBAs did not authorize employees to participate in the buyout program while obtaining coverage through a spouse or parent employed by the District, while the remaining five CBAs were silent regarding this issue. The Superintendent told us that it was the result of negotiations between the parties.

While the District may not unilaterally stop the practice of paying employees who have opted for the District's health insurance buyout provision in a CBA, District officials should have conducted a cost-benefit analysis to determine whether offering buyouts to employees who are covered by a spouse or parent working at the District, is in fact, a cost savings for the District. Based on our cost analysis for the 2021 calendar year, buyout payments to spouses and dependents employed by the District resulted in additional health insurance costs totaling \$73,966.

Although the overall buyout program achieves savings due to the employees who obtain health care from another party, there is the potential that the District could further increase savings if the District were able to restrict employees from receiving a buyout when an employee is obtaining the same health insurance from a spouse or parent employed by the District.

What Do We Recommend?

District officials should:

1. Perform a cost-benefit analysis and review the District's eligibility requirements for the health insurance buyout program to determine if the District financially benefits from each employee opting for the buyout, and if the program is implemented in the most prudent and cost-effective manner.
2. At the expiration of the current CBAs and contracts, consider negotiating with the various unions and individuals to exclude eligibility for health insurance buyouts to employees covered by the District's same health insurance plan through a spouse or parent employed by the District.

Appendix A: Response From District Officials



Patchogue-Medford School District

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June 22, 2023

Mr. Ira McCracken
Chief Examiner Office of the State Comptroller
NYS Office Bldg., Room 3A10 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

We are in receipt of the draft findings of the recent audit of the Patchogue-Medford School District entitled "Health Insurance Buyouts". The purpose of this letter is to provide a response to recommendations identified in the report.

On May 18, 2022, we were notified that the District was selected for an audit of policies and procedures related to our internal controls. We provided your office with all documents required in order to conduct the necessary fieldwork. After responding to all inquiries from the assigned auditors, we were advised that the scope of the audit would focus on "Health Insurance Buyouts".

The draft findings provided recommendations where the District could achieve greater savings in our health insurance buyout program by modifying the terms outlined in the various collective bargaining agreements. We are always looking for ways that we can improve our protocols and internal controls and are appreciative of the recommendations where the District might be able to realize future cost savings of our health insurance buyout program. We have attached a corrective action plan which notes the key recommendations and our respective responses to each recommendation.

On behalf of the Board of Education and Central Office Administrators, I would like to extend my appreciation to your office for conducting a highly professional audit which provided useful guidance for our School District. We found the auditors to be courteous, considerate, and reasonable regarding their requests. We were very appreciative of the high level of professionalism that they exhibited throughout the examination process.

Respectfully submitted,

Donna Jones, Ed.D.
Superintendent of Schools

cc: Board of Education
F. Mazzie

The Patchogue-Medford School Community's Mission is to provide diverse pathways and varied enrichment opportunities that will lead to meaningful learning experiences for all students.

Recommendations and Responses to Comptroller's Audit of Health Insurance Buyouts

	Recommendation	Response
1.	Perform a cost-benefit analysis and review of the District's eligibility requirements to determine if the program is implemented in the most prudent and cost-effective manner.	The District will prepare a cost-benefit analysis as contracts near their expiration to identify what further savings may be realized if the health insurance buyout is restricted.
2.	Consider negotiating with the various unions and individuals to exclude eligibility for health insurance buyouts to employees covered by the District's same health insurance plan through a spouse or parent employed by the District.	Pending the outcome of the cost-benefit analysis outlined in item #1 above, the district will consider bringing this item forward as collective bargaining agreements are up for renewal.

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We conducted interviews with District officials and employees to gain an understanding of their procedures related to the health insurance buyout program.
- We reviewed all CBAs and individual contracts that were in effect during the audit period to determine if buyouts were authorized by the Board and calculated accurately.
- We reviewed the District's list of employees who were receiving health insurance buyouts and the amount they received during the audit period. We also reviewed payroll records to determine if payments made to those recorded on the District's list agreed with the listed amount.
- We requested a list from the District of all employees who were receiving health insurance buyouts and who had obtained coverage from a spouse or parent working at the District. We then obtained a list of all employee addresses and identified if any employees who received the buyout had an address that matched another District employee. We then interviewed employees and reviewed personnel files to determine if there were any additional employees who received the buyout and obtained coverage from a spouse or parent working for the District.
- We reviewed appropriation status reports to determine the health insurance expense incurred by the District during the audit period.
- To determine if the District achieved savings as a result of providing employees buyouts, we reviewed the District's cost of family coverage and cost of two individual insurance plans for every employee who received a buyout and obtained coverage through a spouse or parent employed by the District in 2021. We looked at 2021 because our audit period had one complete calendar year, and the buyout program, including the insurance premiums, are based on a calendar year.

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

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.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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