A Performance Audit of Employee Benefits: Hunterdon Central Regional High School District

AUDIT DIVISION REPORT

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Acting State Comptroller

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NEW JERSEY
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Audit Authority

We performed this audit pursuant to the State Comptroller's authority set forth in N.J.S.A. 52:15C-1 to -24. We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS)[1] applicable to performance audits. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Hunterdon Central Regional High School District (District) is located in Hunterdon County and serves five municipalities: Delaware Township, East Amwell Township, Flemington Borough, Raritan Township, and Readington Township. During fiscal year (FY) 2022, the District had an enrollment of 2,575 students in grades 9 through 12 and approximately 225 teachers. Approximately $91 million in local property taxes made up 65.1 percent of total revenues for the District. Federal, state, and local grants accounted for approximately 32.5 percent of revenue. Total budgetary revenue for the District's general fund, including state, federal, and local sources, was approximately $76 million.

The District is governed by a Board of Education (Board) comprised of nine elected volunteers from the five sending districts. The Board members serve three-year terms. The primary function of the Board is to establish policies for the District. The Board delegates the administration of the District to the Superintendent.

The Board entered into collective bargaining agreements (CBAs) with the Hunterdon Central Regional High School Administrators Association (Administrators Association), the Hunterdon Central Regional High School Education Association (Education Association), and the Hunterdon Central Bus Drivers Association/NJEA/NEA (Bus Drivers Association). The Board entered into individual employment contracts with employees not subject to collective bargaining.

Executive Summary

Our audit identified weaknesses with certain fiscal and operating practices related to employee benefits. We found that the District lacked adequate policies, procedures, and controls governing the functions of procurement, personnel, and payroll.

Specifically, our audit found that the District:

- Failed to procure health insurance coverage and health insurance brokerage services (brokerage services) in accordance with the Public School Contracts Law (PSCL);

[1] UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE, GOVERNMENT AUDITING STANDARDS 2018 REVISION, (Apr. 2021), ("GAGAS" or "Yellow Book"), https://www.gao.gov/assets/gao-21-368g.pdf.

- Could have saved up to approximately $2.3 million in FY 2023 by obtaining health benefits coverage from the School Employees' Health Benefits Program (SEHBP);
- Paid $100,000 for health benefit waiver payments to eight employees who also received health insurance coverage paid for by the District through a family member employed with the District;
- Failed to adhere to its CBAs or policies in processing and approving employees' leave of absence requests; and
- Issued improper payments to employees at separation of employment due to weaknesses in internal controls.

The District must take appropriate action to strengthen its internal controls by improving its current practices, revising policies and procedures, and increasing management oversight in order to achieve greater operational effectiveness and to comply with applicable laws and its own internal policies and procedures.

We make nine recommendations to improve District operations and its compliance with applicable statutes and regulations.

Audit Objectives

The objectives of our performance audit were to review the District's controls over selected employee benefits; assess its compliance with laws, regulations, and internal policies and procedures related to those practices; and identify opportunities for cost savings.

Audit Scope

The period July 1, 2019 through June 30, 2023

Audit Methodology

To accomplish our objectives, we reviewed relevant statutes, regulations, District policies and procedures, CBAs, individual employment contracts, financial records, Board meeting minutes, and other supporting records. We also interviewed certain personnel to understand their job responsibilities, overall operations, and the District's internal controls.

GAGAS requires auditors to plan and perform audit procedures to assess internal control when internal control is determined to be significant to the objective. The Government Accountability Office's Standards for Internal Control in the Federal Government, or "Green Book,"[2] provides a framework for internal control systems for public entities. The Green Book establishes five components of an internal control system: control environment, risk assessment, control activities, information and communication, and monitoring. The five components include 17

[2] UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT, (SEPT. 2014) ("Green Book"), https://www.gao.gov/assets/gao-14-704g.pdf.

principles that support effective design, implementation, and operation of an internal control system. GAGAS requires written communication of deficiencies in internal control that warrant the attention of those charged with governance. Deficiencies significant to our audit objectives are included in this report. We communicate internal control deficiencies that are not significant to our audit objectives through separate correspondence to those charged with governance.

As part of our review, we selected a judgmental sample of records. Our samples were designed to provide conclusions about the validity of the sampled transactions and the adequacy of internal controls and compliance with applicable laws, regulations, policies, and procedures. Because we used a non-statistical sampling approach, the results of our testing cannot be projected over the entire population of like transactions or contracts.

Audit Findings and Recommendations

Insurance Contracts Procurement

Objectives

To determine whether the procurement of health insurance coverage and brokerage services complied with applicable statutes and regulations.

To determine whether the District could have saved money by participating in the SEHBP.

Findings

The District's procurement of health insurance coverage and brokerage services did not comply with the PSCL requirements or the District's own policy.

The District failed to obtain required vendor disclosure forms from its health insurance broker (broker) and dental insurance vendor as required by law.

The District could have saved up to approximately $2.3 million in FY 2023 by joining the SEHBP.

Criteria

Pursuant to N.J.S.A.18A:18A-5a(10), insurance, including the purchase of insurance coverage and consultant services, may be procured without formal bidding procedures, provided that the school district complies with the statutory and regulatory requirements for awarding a contract using the "extraordinary unspecifiable services" (EUS) procurement method. An EUS is a service that is specialized and qualitative in nature. The service provider must have expertise, extensive training, and a proven reputation in the relevant field. The District may award an EUS contract in excess of the bid threshold[3] by documenting efforts to secure competitive quotations and having

[3] The State Treasurer sets bid thresholds for school districts in accordance with N.J.S.A. 18A:18A-3. The current bid threshold for contracting units with a Qualified Purchasing Agent is $44,000. https://www.nj.gov/dca/divisions/dlgs/lfns/20/2020-14R.pdf

an official file a certificate with the governing body describing the nature of the contract and the informal solicitation of quotes.

Specifically, a school district must obtain at least two competitive quotations and document that effort. In addition, a designated school official, such as a business administrator, must request that a district's Board award the contract for brokerage services as an EUS by certifying to the Board that the contract meets the EUS exception to formal bidding and describing the informal solicitation of quotes. In the resolution awarding the contract, the school district must identify the reasons for utilizing the EUS contracting process. Finally, the school district must publish a notice of the contract award in its official newspaper, including details such as "the nature, duration, service, and amount of the contract." N.J.S.A. 18A:18A-5(a)(1).

The District must obtain compliance forms, including a Business Registration Certificate, Ownership Disclosure form, Affirmative Action/Equal Employment Opportunity Certificate, and Disclosure of Investment Activities in Iran form from each vendor awarded a contract for insurance or brokerage services.

In addition to the PSCL, the District must comply with N.J.A.C. 6A:23A-6.3(a)(4), which requires the disclosure of political contributions no less than 10 days prior to entering into a contract in excess of $17,500.[4]

N.J.S.A. 17:22A-41.1(a) requires a licensed insurance producer who sells, solicits, or negotiates health insurance policies or contracts to notify the purchaser, in writing, of the amount of any commission, service fee, brokerage, or other valuable consideration that the producer will receive. If the commission, service fee, brokerage, or other valuable consideration is based on a percentage of premium, the insurance producer shall include that information in the notification to the purchaser.

Collective bargaining between the District and its employees determines the nature of employee benefits. The level of health benefits is mandatorily negotiable, except when preempted by statutory requirements, and may not be changed unilaterally. District CBAs require that health insurance plans provide coverage equal to or greater than the current benefit level of coverage. The District may change health benefit providers if this standard is met.

Methodology

- Interviewed personnel responsible for procurement;
- Reviewed District policies for purchasing;
- Examined applicable provisions of the PSCL and N.J.A.C. 6A:23A-6.3;
- Reviewed broker's market analyses;
- Reviewed CBAs' terms addressing health benefit coverage;
- Reviewed supporting documentation; and
- Compared the District's medical and prescription insurance premiums with premiums for comparable coverage offered by the SEHBP.

[4] Political contribution disclosure requirements are contained within N.J.S.A. 19:44A-20.26 as amended by "The Elections Transparency Act" P.L. 2023, C.30.

Audit Results

The District uses a broker to obtain its employee medical, prescription, and dental insurance coverage. The annual value of each of the three insurance contracts, as well as the agreement with the broker, exceeded the bid threshold during the period FYs 2020 through 2022. The total value of these contracts was approximately $13.61 million in FY 2020, $13.08 million in FY 2021, and $12.95 million in FY 2022. We judgmentally selected 6 of 15 health insurance and brokerage services contracts for review. We reviewed all dental and brokerage service contracts for the period FYs 2020 through 2022. We found that the District did not complete the required procedures before awarding the contracts under the EUS exception.

Specifically, the District (1) did not provide evidence that it attempted to obtain any quotations for three brokerage service contracts reviewed; (2) did not file a certificate with the governing body describing the nature of the work to be done, describing the informal solicitation of quotations, and describing in detail why the contract complies with the requirements of the EUS statute and applicable rules for any of the six contracts reviewed; and (3) did not provide proof that it advertised the contract award in an official newspaper for any of the six contracts reviewed. Additionally, the District indicated that it did not have a written contract detailing the scope and cost of the brokerage services. However, we were able to determine that the broker provided the terms of its compensation in writing to the District.

We requested that the District and its broker provide documentation of the total compensation amount paid to the broker for the period July 1, 2020 through June 30, 2022. We were not provided with this documentation by the District or the broker. We were able to obtain documentation through the joint insurance fund (JIF)[5] and found that compensation paid to the broker was approximately $253,000 for FY 2022. The District violated the PSCL by failing to obtain quotes for brokerage services. This fundamental failure to obtain competition reduced the likelihood that the District obtained the best price for services. The lack of a written contract, formally approved by the Board and specifying the scope of the broker's duties and the terms on which the broker will be compensated, resulted in less transparency to the public than required by law.

We have noted in prior reports that brokers face a conflict of interest related to their own financial incentive to recommend coverage options that provide greater compensation to themselves over cheaper options that provide lesser compensation or prohibit broker commissions, as is the case for the State Health Benefits Plan (SHBP) and SEHBP. The District can mitigate the effect of these conflicts of interest by obtaining competition for brokerage services seeking proposals for a flat fee or fixed rate contract with a not-to-exceed contract amount. The flat fee rate should be the only compensation provided to the broker by the District or insurance provider.

The District did not obtain required bidder disclosures including disclosure of bidder's owners, political contributions, and whether the bidder is involved in prohibited investment activities in Iran. Additionally, the District did not obtain the broker's business registration certificate or its certificate of employee information report evidencing compliance with the State's equal employment opportunity laws, both of which are required of contractors doing business with a government entity in New Jersey. We received compliance documentation for the broker dated

[5] A joint insurance fund is a fund of public moneys from contributions made by members for securing insurance protection, risk management programs, or related services. (N.J.S.A. 18A:18B-1(a))

December 2022. The compliance documentation provided had execution dates after the appointment resolutions, which means it was not received prior to the award of the contract.

The District's resolutions appointing the broker as the health benefits agent and the health insurance carriers for each of the school years in our scope did not follow the EUS requirements. The resolutions did not state the supporting reason(s) for the Board's actions. Certificates required by N.J.A.C. 5:34-2.3 were not filed by a designated official with the governing body. On June 26, 2023, the Board approved a resolution appointing the health benefit advisor for FY 2024 that stated the supporting reason for the Board's actions and acknowledged the receipt of the standard certification declaration for an EUS. These acts demonstrate that the District took some actions to improve its procurement process.

Finally, our audit determined that the District was required to obtain political contribution disclosure forms for each vendor. We were provided with political contribution disclosure forms for the District's broker. Because the date of the FY 2020 form was after the award of the contract and the FY 2021 form did not include a date, we could not verify the timely receipt of the forms. The District did not provide copies of the required political contribution disclosure forms for its dental insurance vendor for our review.

The District's noncompliance with procurement requirements diminishes its ability to avoid awarding contracts to ineligible vendors, obtain meaningful price competition, and monitor its agreements to prevent fraud, waste, and abuse.

Potential Savings Analysis

On January 1, 2021, the District started providing health insurance coverage for its employees through a JIF. A JIF provides medical, dental, prescription, and vision coverage to its members on a self-insured basis and secures reinsurance in a form and an amount overseen by the Commissioner of the state Department of Banking and Insurance.

We compared the premiums of the District's medical and prescription insurance coverage with the rates for comparable coverage offered by the SEHBP during FY 2023. We selected the December 2022 invoice for the District's medical and prescription coverage as the basis for our estimate. We projected the total cost for December 2022 over 12 months to obtain an estimate of the annual cost. Using the enrollment data from the December 2022 medical and prescription invoice, we projected the annual cost of coverage for FY 2023 using the comparable SEHBP rates. Our analysis of FY 2023 enrollment and rates determined that the District and its employees could have saved approximately $2.3 million by obtaining coverage through the SEHBP.

The District would be required to negotiate any change in insurance carrier if the level of benefits was determined not to be equal to or better than its current benefits. Through collective bargaining, the District may need to provide additional employment benefits to employees in order to achieve the desired change in insurance benefits. The potential savings calculated above does not include the estimated costs of these benefits. The costs associated with those additional benefits could mitigate the potential savings that would accrue to the District.

The District expressed that negotiations with collective bargaining units for health benefit coverage are complex and as a result, it is difficult to make changes in insurance carriers. The

District informed us that the collective bargaining units are aware of every benefit available and the loss of a potential benefit may prevent the collective bargaining units from agreeing to change providers.

The District's broker explained his view of why the District has not switched to the SEHBP. The broker outlined that the SEHBP has revised downward certain coverage items, thereby making the SEHBP, in the broker's opinion, not equal to or better than the existing benefits. Examples of these downward coverage revisions include imposing on out-of-network pain management providers fixed dollar reimbursement caps for physical therapy, chiropractic, and occupational therapy, the SEHBP's decision to eliminate coverage of out-of-network lab services, and the SEHBP's change of the database they rely on for determining reasonable and customary payments to out-of-network providers.

Additionally, our review of SEHBP plans indicated that only one SEHBP plan uses the same network of healthcare service providers as the District's current insurance carriers. A difference in available service providers can be a barrier to providing alternate coverage that is equal to or better than existing coverage options.

Despite these challenges, the District should seek to negotiate insurance coverage to obtain the best coverage at the best price. We note that prior to joining the JIF, the District's broker provided rate quotes from multiple medical and prescription insurance carriers in its FY 2021 insurance renewal report. However, the insurance renewal reports for FYs 2022 and 2023 failed to include an analysis of competitive coverages available to the District for group medical and prescription coverage. Since FY 2022, the reports present a comparison of the current year rates and renewal rates from the District's existing service provider of group medical and prescription. The lack of competitive rate quotes from alternate providers reduces transparency and prevents the District from holding its current vendors accountable on price.

During this same period, the fee paid to the District's broker increased from $50.49 per employee per month in FY 2021 to $54.07 in FY 2023 without any evidence of a competitive procurement process as noted above. This represents an estimated increase in annual fees between FYs 2021 and 2023 of approximately $17,000 for the District's roughly 390 employees. We requested information regarding the extent and nature of the services provided by the District's broker. The broker referred to a boilerplate section of the broker's annual renewal report listing a number of services including competitive quoting. The renewal reports provided by the broker to the District for FYs 2022 and 2023 failed to include details of competitive quotes for medical and prescription coverage. We requested additional information from the District to supplement the broker's responses regarding services provided. Our request for monthly data such as key performance indicators or call logs went unanswered by the District. The limited transparency into the work of the broker creates cause for concern that the District did not receive fair value in exchange for the more than $250,000 it compensated the broker in FY 2022 to essentially recommend a non-competitive renewal and assist with claims. The absence of a competitive procurement process, the lack of written agreement or transparent performance data, and the inherent conflict of interest for brokers mentioned above created an environment vulnerable to waste and abuse.

Cause

The District failed to follow many requirements of the PSCL and N.J.A.C. 6A:23A-6.3 in its procurement of dental insurance coverage and brokerage services.

Effect/Potential Effect

The District's failure to follow the PSCL and N.J.A.C. 6A:23A-6.3 for the procurement of dental insurance coverage and brokerage services resulted in a lack of adequate competition among vendors and decreased transparency in costs for services. As a result, the District may not have obtained the best price for dental insurance coverage and brokerage services. By receiving up-to-date and accurate data about the pricing of benefit options, both the District and its employees could potentially receive greater savings through negotiation.

Recommendations

1. Comply with the requirements of the PSCL and N.J.A.C. 5:34-2 for the procurement of health insurance coverage and brokerage services.

2. Obtain political contribution disclosures for health insurance coverage and brokerage service contracts in accordance with N.J.A.C. 6A:23A-6.3.

3. Seek to mitigate insurance broker conflicts of interest by establishing a flat fee or fixed rate contract with a not-to-exceed contract amount. The flat fee rate should be the only compensation provided to the broker by the District or insurance provider. The brokerage service contract should detail all terms and conditions including compensation.

4. Conduct an analysis to evaluate the costs and benefits of switching from the existing JIF to the SEHBP for medical and prescription coverage for current employees.

5. Seek to implement the most cost-effective means of providing employee health benefits through collective bargaining. Substantiate any analysis performed and collective bargaining negotiations with written documentation.

Health Benefit Waivers

Objective

To determine whether the District's health benefit waiver payments are fiscally prudent.

Finding

The District paid $100,000 in health benefit waiver payments to eight employees who received health benefits coverage through a family member also employed by the District from FYs 2020 through 2022.

Criteria

Payments to an employee to incentivize the waiver of health benefits are statutorily limited to the lesser of $5,000 or 25 percent of the amount saved for many local government entities. The Division of Local Government Services has provided guidance to local governments, excluding school districts, recommending that the governing body of each local unit authorizing payments in lieu of health benefits annually review, and have a thorough discussion about, their policy, its impact on the local unit's budget, and whether such waiver payments remain fiscally prudent. N.J.S.A. 40A:10-17 excludes these waiver payments from the collective bargaining process for local governments. These local governments may determine the most fiscally prudent manner of offering waiver payments without negotiation. N.J.S.A. 52:14-17.31a excludes these payments from the collective bargaining process for entities enrolled in the SHBP or SEHBP. Health insurance benefits are mandatorily negotiable unless preempted by a statute or regulation. District CBAs provide for a payment of up to $5,300 to employees waiving health benefits coverage. The payment amount varies based on the level of coverage waived.

In order to avoid the duplication of benefits, the SHBP and SEHBP do not allow waiver payments to employees receiving SHBP or SEHBP coverage through a family member. District CBAs do not contain a similar limitation.

Methodology

- Interviewed personnel responsible for health benefit waiver administration;
- Examined District CBAs;
- Reviewed laws related to health benefit waiver payments; and
- Compared health benefit enrollment and waiver payments to identify duplicated benefits.

Audit Results

The District paid approximately $1.3 million in health benefit waivers to an annual average of 112 employees between FYs 2020 and 2022. The District informed us that it made waiver payments to employees who also received health benefits coverage through a family member employed by the District. District CBAs do not prohibit employees from "double dipping" by receiving waiver payments while simultaneously receiving health benefits from the District through a family member. The District provided a list of seven employees who received duplicate benefits valued at $99,000 for FYs 2020 through 2022. Our review confirmed that the seven employees on the District-prepared list received duplicate benefits and we identified one additional employee who received $1,000 in waiver payments while receiving District-paid health benefit coverage during FYs 2020 through 2022.

Cause

State law, District CBAs, and individual employment contracts do not prohibit payments for health benefit waivers to those receiving District-paid health benefits.

Effect/Potential Effect

The District made wasteful payments for health benefit waivers of $100,000 to employees receiving District-provided health insurance through a family member. The wasteful payments will continue until there is a negotiated change in CBAs or a change in state law.

Recommendation

6. Seek to eliminate waiver payments to employees receiving District-provided health insurance through a family member via contract negotiations. Maintain supporting documentation for such efforts.

Leaves of Absence

Objective

To determine whether the District processed leave of absence requests in compliance with District policies, CBAs, and individual employment contracts.

Finding

The District did not have written procedures for processing requests and approvals of temporary and extended leaves of absence consistent with CBAs, individual employment contracts, and existing policies.

Criteria

The District provides employees with temporary and extended leave benefits. These benefits may be paid or unpaid. District policies, CBAs, and individual employment contracts establish the guidelines for use of these benefits. Temporary leaves of absence include jury duty and personal and bereavement leave. Employees are eligible for extended paid and unpaid leave for maternity, child rearing, physical or mental disability, and military service. Temporary and extended leave benefits are subject to approval and documentation requirements that vary by the type of leave utilized.

During FY 2021, the District entered into an agreement with the Education Association to permit remote work due to the COVID-19 pandemic. The agreement established guidelines for permitting remote work and required that members who worked remotely contribute an amount to offset the cost of substitute coverage. The agreement required a contribution of $35 per day for certified staff and $15 per day for paraprofessionals.

Methodology

- Interviewed personnel responsible for leave of absence administration;
- Examined District policies, CBAs, and individual employment contracts;
- Selected a judgmental sample of employees using more than 50 days of temporary and extended leaves of absence in one year; and

- Reviewed temporary and extended leave of absence documentation for compliance with District policies, CBAs, and individual employment contracts.

Audit Results

We identified 116 instances involving 100 employees who used more than 50 days of leave annually between FYs 2020 and 2022. We selected a judgmental sample of 28 instances representing 20 employees. We found instances in which required medical documentation did not cover every leave day used, leave days that lacked documentation of approval, and leave days that were not categorized accurately. In FY 2021, the District tracked employees working remotely by coding those days with the leave reporting category "other." This coding to track remote work is in connection with the agreement between the District and the Education Association to permit remote work due to the COVID-19 pandemic. The agreement required that members who worked remotely contribute an amount to offset the cost of substitute coverage. Our review of employees using remote workdays identified $1,138 that was not contributed by three employees.

Management should design control activities to achieve objectives and respond to risks.[6] The District does not have written procedures related to the processing of leave requests, obtaining and documenting required approvals, and maintaining documentation to ensure the consistent application of District leave policies.

Cause

The District did not implement written procedures to ensure compliance with its policies, CBAs, and individual employment contracts regarding the processing and approval of leave of absence requests.

Effect/Potential Effect

The lack of written procedures may lead to noncompliance with District policies, CBAs, and individual employment contracts.

Recommendation

7. Develop written procedures for processing requests and approvals of temporary and extended leaves of absence consistent with CBAs, individual employment contracts, and existing policies.

Accumulated Leave Payments

Objective

To determine whether the District processed leave payments in compliance with applicable state law, District policies and procedures, CBAs, and individual employment contracts.

[6] U.S. GOVERNMENT ACCOUNTABILITY OFFICE, Green Book at 9.

Finding

The District failed to make leave payments at separation in accordance with CBAs and individual employment contracts resulting in approximately $31,000 in excess payments and approximately $7,000 in underpayments.

Criteria

In 2007 and 2010, in an effort to reduce property taxes, the Legislature enacted laws that place limits on payments for unused sick leave. The 2007 and 2010 sick leave laws place restrictions on the timing and amount of payments to certain employees. The 2007 law, N.J.S.A. 18A:30-3.5, limits payments for unused sick leave to Superintendents, Assistant Superintendents, and Business Administrators to the greater of $15,000 or the amount accumulated on the effective date of the law or upon appointment to the position. The 2010 law, N.J.S.A. 18A:30-3.6, limits payments for unused sick leave for employees hired after May 21, 2010 to no more than $15,000. The 2007 and 2010 laws both authorize payments for unused sick leave only upon retirement.

The Board has CBAs with the Administrators Association, Education Association, and Bus Drivers Association. Employees not subject to CBAs have individual employment contracts.

Results of Contract Review				
CBA/ Individual Employment Contracts	Allows all eligible employees to receive one day's salary for each three days of accumulated sick days upon retirement	Limits the amount of sick leave payable at retirement	Limits accrued sick leave to $15,000 or less, payable only at retirement	Limits vacation payouts at separation of employment
Administrators Association CBA	Yes	Yes - 65 days	Yes	Yes
Education Association CBA	Yes	Yes - 55 days	No	Yes
Bus Drivers Association CBA	Yes	Yes - 55 days	No	N/A
Individual Employment Contracts	Yes	No	Yes	Yes

The Administrators Association CBA and the individual employment contracts reviewed contain provisions limiting payment of sick leave for employees hired after May 21, 2010 to $15,000 and only upon retirement. However, the Education Association and the Bus Drivers Association CBAs did not contain these provisions. Under their CBAs, an employee hired after May 21, 2010 could be eligible for a payment for unused sick leave that exceeds statutory limits.

The Administrators Association CBA and the individual employment contracts reviewed contain provisions limiting vacation payments for employees at separation to a maximum of one-year's vacation allotment. The Education Association CBA limits the vacation payments to the one-year's vacation allotment plus a maximum of five unused vacation days carried over from the previous year. The Bus Drivers Association CBA does not address unused vacation payments because covered employees are not provided vacation leave.

Methodology

- Interviewed personnel responsible for leave payment administration;
- Examined CBAs, individual employment contracts, and relevant state laws regarding employee leave payments;
- Analyzed accumulated leave time and payroll reports;
- Selected a judgmental sample of employees receiving payments at separation of employment; and
- Reviewed documentation of payments at separation of employment for compliance with applicable state law, District policies, CBAs, and individual employment contracts.

Audit Results

Between FYs 2020 and 2022, the District paid approximately $1.1 million in leave payments to 60 employees at their separation of employment. We judgmentally selected leave payments for 20 employees to determine whether the payments complied with applicable state law, District policies and procedures, CBAs, and individual employment contracts.

The District utilizes multiple templates to calculate leave payments according to an employee's position. We found that templates used to calculate the leave payments for 8 of 20 employees tested were not properly designed. Specifically, we noted templates that contained a formula error that incorrectly limited the payments of sick leave and templates that failed to limit the payment of unused vacation leave as required by District CBAs and individual employment contracts.

We found that leave payments for 12 of the 20 employees were inaccurate, resulting in approximately $31,000 in excess payments and $7,000 in underpayments. Of note, the District overpaid two employees by $23,916 because the templates did not cap the payment of unused sick leave in accordance with the Administrators Association CBA.

The District overpaid three employees approximately $5,000 for vacation leave in excess of the one-year's vacation allotment. In addition, the District failed to compensate two employees approximately $4,000 for unused personal leave. The District also failed to compensate an employee approximately $2,000 for unused sick leave.

Management should design control activities to achieve objectives and respond to risks.[7] Accordingly, templates must be consistent with applicable state law, District policies, CBAs, and individual employment contracts to be effective.

Cause

Weaknesses in the design of District internal controls and payment templates led to noncompliance with CBAs and individual employment contracts and the calculation of inaccurate leave payments.

[7] U.S. GOVERNMENT ACCOUNTABILITY OFFICE, Green Book at 9.

Effect/Potential Effect

The District made leave payments to employees that were inconsistent with the applicable state law, CBAs, and individual employment contracts. If not corrected, the use of District payment templates will result in additional inaccurate and wasteful leave payments to employees.

Recommendations

8. Review the design of the templates used to calculate employee leave. Ensure that the formulas are accurate and that the templates include limitations to the payment of unused sick and vacation leave according to applicable state law, CBAs, and individual employment contracts.

9. Recover the excess leave payments made. Issue leave payments owed to underpaid employees.

Response Review and Reporting Requirements

We provided a draft copy of this report to District officials for their review and comment. The District disagreed with our audit findings and conclusions regarding payments to employees at separation of employment, insurance and insurance services procurement, and health benefit waivers. The District stated that it did not receive back-up information for several of the findings. We note that information was provided throughout the audit and that we provided additional details related to our report findings as part of our review of the District's response.

The District disagreed with our calculation of leave payments to employees at separation. The disagreement is due to different interpretations of contract provisions when calculating the payments to employees. The District also argued that the methodology for calculating payments was consistent with past practices. We contend that the District should follow contract provisions limiting compensation for accrued sick and vacation leave when calculating employee payments at separation. These provisions are included in the employee contracts to safeguard taxpayers against legal but potentially excessive payments to employees at retirement.

We disagree with the District's position that the costs of the broker are at no cost to the District because the broker receives payments from the insurer. The premiums charged to member districts of the JIF must cover the cost of claims and related administrative charges, including broker commissions to prevent insolvency of the JIF. The procurement regulations for insurance and insurance services require the solicitation of multiple quotes to encourage competition. The additional data obtained through a competitive procurement process can assist the District when seeking changes to benefits.

The District argues that payments to employees who receive District-paid health insurance through a family member employed by the District saves money by providing an incentive for the eight employees to waive their health coverage. This argument is inconsistent with the guidance provided for local government units in Local Finance Notice (LFN) 2016-10. While not authoritative, LFN 2016-10 maintains that increased employee contributions toward health benefits coverage provide sufficient incentive to waive coverage without additional payments.

The contributions toward health benefit coverage required of school district employees should provide similar incentives to waive health benefits without payment. Our report and recommendation acknowledge the difficulties that Districts may encounter when seeking change to employee benefits through negotiations. We urge the District to seek recommended changes through negotiations.

The District's comments were considered in preparing our final report. Accordingly, we removed language that requested insurance broker commissions be returned to the District or credited to the premium costs and made changes to our calculation of leave payments at separation. In many instances, the District indicated that there was a lack of legal authority for our findings and/or recommendations. Many of our recommendations exceed the minimum required by law in order to improve transparency and accountability at the local level. We reiterate that this is a performance audit which provides objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability. Our findings and recommendations are in accordance with performance audit standards. The District's response is attached as Appendix A.

We are required by statute to monitor the implementation of our recommendations. In accordance with N.J.A.C. 17:44-2.8(a), within 90 days following the distribution of the final audit report, the District is required to provide a plan detailing the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. We will review the corrective action plan to evaluate whether the steps taken by the District effectively implement our recommendations.

We thank the management and staff of the District for the courtesies and cooperation extended to our auditors during this engagement.

Hunterdon Central Regional High School

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HUNTERDON CENTRAL REGIONAL HIGH SCHOOL RESPONSE TO "A PERFORMANCE AUDIT OF EMPLOYEE BENEFITS"

March 19, 2024

Hunterdon Central, always committed to continuous improvement, appreciates the opportunity to learn and grow, and is therefore grateful to the Office of the State Comptroller's Audit Division for its recent feedback. Overall, we are proud of our ability to provide benefits to our employees to the degree that we have attracted and retained staff during these difficult times when so many schools are limping through a compromising number of vacancies, which significantly impedes their ability to provide a thorough and efficient education. We are also extremely proud of weathering crisis and calamity, namely the confusion of the pandemic, and offering level and, in many cases, declining tax rates to our community. For FY 2024, in fact, our tax levy increase did not even reach the cap level of 2%. We are targeting the same for FY2025. Nonetheless, our fiscal responsibility finds no mention in this report. We contend that a district could not realize such a high level of fiscal performance without respectful and skilled stewardship of the public funds we are tasked with overseeing.

Before responding to each of the findings, we would like to take the opportunity to share some additional overarching concerns about OSC's lack of transparency in its goals for this audit, the basis for its conclusions, and the reason Hunterdon Central was chosen to be audited.

First, we have not received any back-up information on several of the findings to trace the OSC's work, thus limiting our ability to improve or correct our practices, should we validate the findings. We find it troubling that we are asked to respond to conclusions about over and underpayments without being provided any information on how OSC concluded that such payments were made.

Second, we assert that cooperating with the process had a profound impact on administrative productivity during extremely demanding times, spanning many months. We are obligated to understand the impact of this audit on the taxpayers of our region and New Jersey, and will be working to quantify that impact. If you can provide any information on the cost of our audit, from initial notification to the delivery of the report, we would greatly appreciate it. We are happy to provide a list of categories of expense for the OSC to report, if that would be helpful.

Finally, we note, as other auditees have, that despite OSC's purported mission to improve efficiency and prevent waste, fraud and abuse by shining a light on how government entities spend taxpayer dollars, OSC is not obligated to disclose how its auditees are chosen, validate its recommendations, or justify its own expenditure of resources toward questionable conclusions. That we are recommended to upend our collective bargaining agreements and join the SEHBP also strikes us as both a foregone and a questionable finding, especially given the performance of that program.

Hunterdon Central responds to each of the findings as follows:

1. *Comply with the requirements of the PSCL, including N.J.A.C. 5:34-2, for the procurement of health insurance coverage and brokerage services.*

   The District corrected its EUS procedures in 2023 and will continue to adhere to these procedures. Although the District has every intention of complying with the PSCL, the District takes issue with the notion that not obtaining quotes for brokerage services necessarily "reduced the likelihood that the District obtained the best price for services." While the District recognizes its obligation to solicit at least two quotes, EUS procurement does not require the District to award a contract to the person submitting the lowest quote. The District has corrected its practices on EUS procedure, but intends to avail itself of the statutorily granted authority to award a contract based on the most advantageous proposal, considering price as well as other factors.

2. *Obtain political contribution disclosures for health insurance coverage and brokerage service contracts in accordance with N.J.A.C. 6A:23A-6.3.*

   The District appreciates the feedback and agrees with the intent and purpose of the PSCL and related laws. Nonetheless, the District and its broker provided PCD forms for each year, demonstrating no reportable contributions that call into question whether the award was made based on favoritism or other impermissible reasons. Further, the District's broker provided its Employee Information Report, which was valid throughout the audit period, and demonstrated compliance with Affirmative Action requirements. The District will continue to obtain the PCD forms from its insurers and brokers.

3. *Agree upon a flat fee rate, not to exceed the contract amount for brokerage services, instead of a commission-based payment to mitigate the risk of the broker recommending more expensive health insurance coverage in order to increase its commissions. The flat fee rate should be the only compensation provided to the broker by the District or insurance provider. Any additional compensation received by the broker should be returned to the District or credited to the insurance premiums.*

   While the District recognizes that the OSC feels strongly that health insurance brokers have an inherent conflict of interest, the District disagrees and has yet to see evidence of that in the services it has received. Further, the law requires no such limitation on the District's fee structure with its broker. To the contrary, OSC's suggestion that compensation be returned to the District or credited to the premium costs risks running afoul of N.J.S.A. 17:29A-15, and N.J.A.C. 11:17A-2.3, which appear to

prohibit such consideration.The District notes that broker commissions are not paid by the District, but rather the insurer, rendering their services cost neutral to the District. Insisting on a flat fee or not-to-exceed payment structure, which is out of line with industry standards, will yield no financial savings for the District.The District will continue to assess the services it receives from its broker based on the broker's ability to save the District money in its choice of plan.

4. *Conduct an analysis to evaluate the costs and benefits of switching from the existing JIF to the SEHBP for medical and prescription coverage for current employees.*

The District will continue to evaluate what provider, including the SEHBP, can offer the most competitive price on the plans the District must offer. It was precisely this evaluation that led the District to join the SHIF in 2021, a move which saved $954,020.00. Further, the District is eligible for and has received dividends from the SHIF, offering additional cost savings not accounted for in OSC's analysis. OSC notes that the District did not receive competitive quotes for coverage for 2022 and 2023, and suggests that this somehow "reduces transparency and prevents the District from holding its current vendors accountable on price." OSC's assertion in this regard fails to recognize that in moving to the SHIF in 2021, the District committed to remain a member for three years, in accordance with the SHIF's bylaws and the enabling statutes that authorize the creation of joint insurance funds by school districts.

The District rejects the assertion that it could have saved 2.3 million dollars by switching to the SEHBP in 2023 as patently false at worst, but misleading at best. First, it must be noted that since January, 1, 2021, when the District entered the SHIF, it has seen significantly lower premium increases than the SEHBP. Below is a chart comparing the year to year increases the District saw versus the SEHBP increases.

HEALTH BENEFITS

Beginning January 2021, the district moved from a private plan to the SHIF resulting in $954,020 savings without reducing levels of coverage as per the negotiated agreements.

The district continues to experience relatively low increases in our health benefit costs due to aggressive marketing of plans over several years, good experience rating and overall health of the plan.

Year	SHIF	SEHBP*	Notes
2022	1.4%	-1.6%	1, 2
2023	3.4%	15.6%	1, 2
2024	7.8%	11.0%	1, 2
Avg.	4.2%	8.3%	
Cumulative	12.6%	25.0%	

Notes:
1. SHIF renewals are 7/1 and SEHBP renewals are 1/1
2. Assumes NJ Direct 10 plus integrated Rx drug

*Aon Consulting report for PY 22, 23 & 24

SEHBP increased rates 15.6% in 2023 and 11% in 2024 with an overall increase of 25% in the last 3 years.

Compared to SHIF increase of 12.6% in 3 years, not including the initial $954,020 savings.

Given the erraticism of the SEHBP's model over the above-span of years, it would be fiscally imprudent to switch to the SEHBP for a lower rate one year, when the following year a double digit increase is well within what can be expected. Decisions about health insurance cannot be made simply based on one year's rates. Chasing a year-to-year rate negatively impacts the District's long-term ability to secure competitive rates because providers view such habitual "jumpers" as unlikely to become long-term clients worthy of the most competitive rates. Understanding the nuances of the insurance market are precisely the reason why the professional competency of an experienced broker is necessary to ensure the District is making sound decisions for both the long-term and the short-term.

Further, in addition to one of the audit team members referring to the SEHBP as the "plan of last resort" during one of our many lengthy sessions, the OSC admits that the District's plan offerings, which it is obligated to provide under the terms of its existing collective negotiations agreements, is not an apples-to-apples comparison with the SEHBP. As reflected in the report, the District's plan mirrored the SEHBP as it existed when the District left SEHBP in 2014. Since then, the SEHBP has diminished its coverage offerings, rendering it a lesser plan than what the District offers. The District's ability to change health care plans is limited to an "equal or better" plan than what is provided in the collective negotiations agreements. We note with frustration the number of times during the audit process that we had to explain the collective bargaining process, and the need to provide coverage that is "equal to or better than" current coverage whenever we make a change to health benefits. This requirement is not unique to Hunterdon Central, and hardly new in the landscape of labor relations in public schools.

In light of this, OSC's finding is tantamount to saying that the District could have saved money if it offered a cheaper plan. It is hard to understand how that conclusion requires an audit, let alone one that took well over a year to perform and imposed a significant burden on our district. In short, we see nothing in the discussion of this finding to dispel the suspicion that most districts in the field hold, and which we unfortunately must echo–that the audit process represents an attempt to shame districts into a failing program administered by the state, from which there has been an exodus due to that program's inability to deliver on its promises.

5. *Seek to implement the most cost-effective means of providing employee health benefits through collective bargaining. Substantiate any analysis performed and collective bargaining negotiations with written documentation.*

The District always seeks to realize the best deal it can during its collective negotiations and takes umbrage at the notion that its negotiations goals are anything

short of achieving a deal that is both cost effective for taxpayers and fair to the dedicated employees entrusted with educating children. The conclusions in the report demonstrate that OSC does not have a working understanding of the collective negotiations process, or the legal limitations imposed on school districts.

The implementation of Chapter 44 created the New Jersey Educators Health Plan and the Garden State Health Plan and required all school districts to offer those two plans either through the SEHBP or through a private plan with the identical plan design. Beginning July 1, 2020, all new hires are required to be enrolled in one of those plans, although the implementation date of the GSHP was later deferred. With respect to any hires since July 1, 2020, the District is legally prohibited from negotiating a different benefit plan, except to offset its losses from the implementation of Chapter 44, which the District estimates to be approximately $240,000 for 2022 and 2023. At the present time, 53% of the District's staff have opted into a Chapter 44 plan.

With respect to the remaining 47% who remain in the District's pre Chapter 44 legacy plan, Chapter 44 limits the District's ability to negotiate any new plan offerings until January 1, 2028. In light of this, the District is unclear on how OSC believes the District is empowered to negotiate for cost savings on its health insurance, other than to offset its Chapter 44 losses.

6. *Seek to eliminate waiver payments to employees receiving District-provided health insurance through a family member through contract negotiations. Maintain supporting documentation for such efforts.*

We reject the assertion that the District's health benefits waiver payments were wasteful, and we are confused by the legal authority cited in support of this characterization, which OSC acknowledges is inapplicable to school districts. Such payments, by the report's own admission, are not prohibited by state law. Until the law prohibits dual enrollment and waiver payments in school districts, the District must negotiate within its own landscape rather than the legal landscape of other government entities.

In this regard, the District asserts that its waiver payments are fiscally prudent because they cost less than providing coverage to the employee. If the District were successful in negotiating the waiver payment out of the contract, employees who previously waived coverage may decide to opt in. By OSC's own calculations, the so-called "double dipping" only costs the District $33,333 per year for 8 employees. If only two of those 8 employees decided to opt back in, the District would see no savings. If any more than 2 opted back in, the District would lose money.

Further, negotiating benefits out of a collective negotiations agreement generally comes at a cost. Unions do not simply negotiate lesser benefits for their membership without expecting a concession in return. Oftentimes quantifiable savings realized through negotiations are split between the District and the union, with the savings going toward the salary guide. As such, negotiating out the waiver payment would cost the District something else in the process. In light of the risk that employees could opt back in, prioritizing the removal of these payments would appear shortsighted.

7. *Develop written procedures for processing requests and approvals of temporary and extended leaves of absence consistent with CBAs, individual employment contracts, and existing policies.*

The district appreciates this feedback, and notes that the finding of a failure to collect $1,138 of reimbursement from three staff working remotely occurred as a result of unique allowances made during the pandemic. We will explore the opportunity for correction should such a similar calamity force a similar negotiated allowance to our staff in the future. We also urge the OSC to recall the valiant efforts of schools to maximize time-in-school for students and staff when state officials had not yet returned to their posts to assist us. During this period, we regularly learned of changes in rules and practices from Governor Murphy's Twitter account or sparse PowerPoint slides in live-streamed daily briefings during the school day rather than through more appropriate channels, delivered in a timely manner and in writing.

8. *Review the design of the templates used to calculate employee leave. Ensure that the formulas are accurate and that the templates include limitations to the payment of sick and vacation leave according to applicable state law, CBAs, and individual employment contracts.*

The District must point out the errors in OSC's contention that the HCEA contract and the HCBDA contract allow for payments in excess of $15,000 for employees hired after 2010. To the contrary, both contracts provide that payments for sick leave at retirement will be made in accordance with applicable law.[1] The District is aware of the $15,000 cap for post-2010 hires and reminds OSC that contract provisions are preempted by law, and are not required to be explicitly laid out in the contract. The District believes OSC is aware of this legal principle, which has been cited in prior

[1] Article 17.1.3 of the HCBDA contract says "All payments must adhere to applicable state statutes." Article XVII(F) of the HCEA contract provides "This Article is subject to change by reason of changes in the law, and it is expressly understood that it will be applied in accordance with the law."

OSC reports.[2] Further, OSC's own audit did not identify any HCEA or HCBDA retirees who were improperly paid in excess of $15,000.

Based on the information provided by OSC regarding specific employees, the Board disagrees with OSC's assessment regarding overpayments to 5 employees totaling $29,915.56.

- Vacation payments: The District disagrees with OSC's assessment regarding three employees who were permitted to carryover more than one year's vacation, despite their contracts only permitting one year of vacation to be carried forward and paid at retirement. These employees retired at the end of 2020, 2021 and 2022, respectively. The District explained that these staff members were permitted to accumulate more than one year's worth of vacation because the demands of their job prevented them from being able to use their full allotment, specifically job demands that arose during the Covid-19 pandemic. This is expressly permitted by N.J.S.A. 18A:30-9. Although the District does not expect this to recur, the District will incorporate OSC's feedback and memorialize these agreements in writing going forward.
- HCAA sick leave payments: The District disagrees with OSC's assessment of two payouts for accumulated sick leave at retirement, amounting to $23,915.56, which OSC contends were in excess of the contractual benefit. The District disagrees with OSC's interpretation of the applicable collective bargaining agreement, which was negotiated by District staff and is administered by District staff on a daily basis. In this regard, it is difficult to understand how OSC can claim to understand the agreement better than those who negotiated and implement it, and who have the institutional knowledge and understanding of past practice to inform its implementation.

9. *Recover the excess leave payments made. Issue leave payments owed to underpaid employees.*

To the extent the District agrees with OSC's calculations, it will make efforts to contact impacted retirees to recoup overpayments or issue underpayments.

[2] See https://nj.gov/comptroller/reports/2022/approved/20220728.shtml#_ftn8