



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