

**SCHOOL DISTRICT OF ESCAMBIA COUNTY  
INTERNAL AUDITING DEPARTMENT**

**REVIEW OF THE  
LIFE INSURANCE PLAN IMPLEMENTATION**

**PROJECT # 2002-06**

**Accepted By Audit Planning and Review Committee:**

**August 27, 2001**

**Published:**

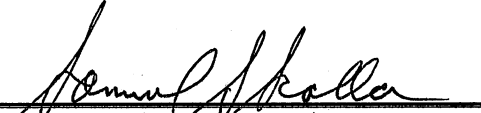
**August 28, 2001**

**Field Work Conducted By :**



**Auditor**

**Report Issued By:**



**Director, Internal Auditing**

**THE SCHOOL DISTRICT OF ESCAMBIA COUNTY  
LIFE INSURANCE PLAN IMPLEMENTATION**

**REVIEW REPORT**

**Background**

The district operates a fully insured life insurance program. Employees are provided one time their annual salary of life insurance coverage at no cost to them. In addition to this they may purchase at their own expense additional coverage of up to three times their annual salary. For the estimated 5,481 active district employees, life insurance premiums are calculated using the TERMS payroll system. A commercial P/C based program calculates premiums for the other estimated 1,746 that are retired, disabled or on leave of absence (LOA).

Premiums are calculated by district staff and remitted to Madison National Life on a monthly basis for all 5 classes of covered individuals. The premium for the month of May 2001 was \$99,618.30. Of this, \$30,599.01 represents premiums for basic life insurance coverage paid by the District as a benefit to all active employees. The cost for supplemental life insurance coverage that is deducted directly from employees' paychecks was \$34,347.55. The remaining \$34,671.74 (calculated and billed by the retiree billing system) represents amounts contributed by retirees and other covered individuals such as employees who are disabled or on LOA.

**Objective**

The objective of our review was to test the implementation of the new life insurance plan with Madison National Life (MNL) to determine whether contract provisions (premium calculations and payments, eligibility, etc.) were implemented correctly and according to the terms and conditions of the Joinder Agreement approved by the Board.

Our review serves as a follow-up to work we performed earlier this year resulting from a claim for additional life insurance premium payments from MNL due to the incorrect implementation of premium rates stipulated in the Joinder Agreement. This review was included in the District Risk Assessment and the Auditing Department's Annual Work Plan.

**Scope**

Our procedures included the review of the current board approved Joinder Agreement effective April 1, 2001, the previous Joinder Agreement dated April 1, 1999, Certificate of Insurance dated April 1, 1999, payroll records, retiree billing records, internal correspondence files, and other letters and memorandums distributed to employees and retirees.

A test month of May 2001 (Billing for June 2001) was selected. Monthly payroll records were reviewed for active employees and retiree billing records for retirees. Monthly reports used to calculate premium payments were reviewed and amounts verified to determine the accuracy of the premium amounts sent to MNL. We used information obtained from the District's payroll system and the retiree billing system to verify monthly premiums.

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In addition, we took a random sample of covered individuals from each of the five classes identified in the current contract. Tests were performed to determine if premium payments for those sampled were being calculated correctly and remitted to the life insurance carrier in a timely manner.

### **Conclusion**

Based on our work we conclude that the contract provisions of the new Joinder Agreement approved by the Board and dated April 1, 2001, generally have been implemented correctly and are being administered according to terms and conditions in the agreement. The errors in retiree billings that occurred when the former plan was implemented on April 1, 1999, resulting in premium underpayments have been corrected. However, we have noted minor errors in implementing this new plan and have recommended district staff seek clarifying language in some instances. These observations are noted below.

### **Observations and Recommendations**

#### *Duplicate Payments*

Premiums for basic coverage for disabled employees are being calculated and paid twice. These premiums were calculated automatically by the retiree billing system **and** again manually by staff in the Risk Management Accounting Department. Overpaid premiums from April 1, 2001 through June 2001 totaled \$1,421.51. Since disabled employees were previously on "waiver of premium" prior to April 1, 2001, earlier premiums were not affected. We recommend that the District seek reimbursement for the overpayments and correct the problems noted.

#### *Dependent Life Insurance*

Dependent life insurance was a benefit added some years after the District established a life insurance plan. Because of this, a separate payroll deduction "slot" is used to deduct these premiums from employees' pay. In addition, separate calculations and reports are required. Inefficiencies may exist due to the extra premium calculations and payments to the same company. We recommend district staff determine whether efficiencies might be gained in consolidating these premiums into one.

#### *Certificate of Insurance*

A part of the group life insurance plan, a "Certificate of Insurance" (COI), is issued to all current and retired employees outlining the benefits and provisions of the group life insurance policy. The COI serves as the "life insurance policy" for all covered individuals. The last COI had an effective date of April 1, 1999 and has not been updated and distributed even though changes were made to the Joinder Agreement effective April 1, 2001. We recommend that a new COI be issued to all covered individuals.

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*Employees on Leave of Absence (LOA)*

A census report, received from the District's MIS Department, erroneously reported 13 employees on LOA where premium amounts are shown as contributed by the District. Further examination of payroll records revealed that these employees had terminated their life insurance coverage but the status code had never been changed to show them as an "inactive" employee. The census report is periodically sent to the life insurance carrier in order for the carrier to verify premium amounts being self-calculated by the District. Inaccurate information such as this could result in claims for additional premiums requiring time consuming research by district staff. We recommend that MIS and/or the Payroll Department make the necessary adjustments to purge these employees from the census report.

Of the thirty people listed in the retiree billing system on LOA, one had exceeded the required 24-month coverage period. In effect, they were provided coverage they were not entitled to. We recommend that a system flag (control) be established to alert district staff when those employees reach the 24-month limit.

*Class 1-Employees (Active)*

Class 1 represents all active employees currently employed with the District and is the largest single class accounting for 5,481 covered members. According to the Joinder Agreement, their coverage reduces by 50% at age 70. In addition, supplemental AD&D terminates. We reviewed the 16 active employees that are over age 70 and noted that the system was not reducing coverage or premiums for all sixteen, resulting in premium overpayments and coverage they are not entitled to. We recommend the District seek refunds of overpayments made for the premiums paid in error and that the premium calculation be corrected to agree with the terms and conditions of the Joinder Agreement.

*Class 2 and 3-Retirees*

These two groups represent a total of 1,685 covered individuals. Our sample revealed no errors for those retirees under age 65. However, the Joinder Agreement requires a reduction in coverage at age 65. We noted numerous errors in the implementation of these reductions. In some cases, individuals were provided additional coverage they were not entitled to resulting in an over payment of premiums. In other cases, retirees' coverage was reduced or eliminated when it shouldn't be. We noted two retirees paying incorrect rates (given the effective date of their retirement) based on a memorandum from the former director of Risk Management. Other issues relating to age 65 were also noted.

We recommend the District review all retirees age 65 and over to determine correct coverage and premiums and implement program corrections to the billing system to agree with the terms and conditions of the Joinder Agreement. In addition, the District should seek reimbursement for overpayment of premiums.

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*Class 4 -Disabled Employees*

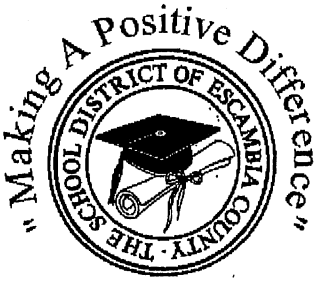
Disabled employees are not entitled to AD&D coverage according to the Joinder Agreement. We noted out of 30 employees classified as "disabled", 7 currently are being billed for AD&D coverage according to the census report. We recommend district staff implement corrections to the billing system to agree with the terms and conditions of the Joinder Agreement.

*Class 5 -Employee Wally Odom*

This classification was added as a new class effective April 1, 2001. The class was created as a result of a retiree who was re-employed at a salary lower than when he retired. In effect, this allowed the employee (who is also one of three Trustees for the District's Employee Benefit Trust Fund) to retain the higher level of life insurance coverage in effect at retirement. Without creating Class 5, the employee would either be classified as: 1) an "active employee"-Class 1, reducing the insurance coverage to the benefit applicable to the new lower salary or 2) a "retiree-retired after April 1, 1994"-Class 2, having the insurance coverage equal to the amount in effect at retirement. Language in the current Joinder Agreement requires reductions to coverage for retirees reaching age 65 and a reduction in coverage for employees and retirees at age 70. Because of this, it is unclear exactly what coverage will be in effect when the employee reaches the age of 65. We recommend the Director of Risk Management request clarification of this point from legal counsel and document the conclusions reached.

Given the looming shortage of teachers in Escambia County and the likelihood that the District may very well re-employ other retired educators, we recommend the Board clarify their intent regarding life insurance coverage for re-employed retirees. The joinder agreement should be modified, if appropriate, to reflect the intent of the Board in this matter.

Please see managements response attached.



# Interoffice Memorandum

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**To:** Samuel S. Scallan,  
Director of Internal Auditing

**From:** Gloria Johnson, *esj*  
Director of Payroll and Benefit Accounting

**Date:** August 29, 2001

**Subject:** Review of Life Insurance Plan Implementation Responses

Following are the process changes that have been or will be made.

### ***Duplicate Payments***

Billings were corrected and payment to Madison National was reduced for the amount of overpayment.

### ***Dependent Life Insurance***

Dependent life premiums are set by the company rather than determined through district calculations. Dependent life is a direct reimbursement. The recommended changes would require the payroll department to wire money to the Employee Benefit Trust Fund in order for one check to be issued to Madison National Life. The current method provides a very clean audit trail, simplifies the payroll balancing process and is more effective and efficient. Will keep process as it is currently.

### ***Certificate of Insurance***

Risk Management will issue a certificate of Insurance to all current and retired employees outlining the benefits and provisions of the group life insurance policy.

### ***Employees on Leave of Absence***

The District in conjunction with Madison National Life was already in the process of

developing a more extensive census report to be transmitted to MNL monthly. This new process addresses and should alleviate the noted problems.

***Class 1 – Employees (Active)***

Monthly a report is generated and given to Risk Management, identifying those individuals who will be turning 70. Risk Management notifies the employee, completes the enrollment card and sends it to Payroll where the coverage change is made.

***Class 2 and 3 – Retirees***

The District has met with Madison National Life and is planning another meeting to develop a letter of understanding regarding the implementation of the verbiage in the Joinder Agreement. Once clarification of the issues is completed all individuals involved in the process will be provided with a documented procedural guideline.

***Class 4 – Disabled Employees***

Data Processing is working to alleviate the billing disparity. However, the District has been making manual adjustments to the employees record each month so that they have been properly billed.

***Class 5 – Employee Wally Odom***

It was not the intent of the District to create a new class for rehired retirees or to provide special benefits to one employee. This employee was allowed to keep the insurance coverage in effect when rehired at no cost to the District (employee pays all cost of the insurance). Had the employee elected to be covered, as an active employee there would have been a cost to the District and a reduction in benefit to the employee. The Director of Risk Management is working to alleviate this confusion.