



State of New Jersey  
DEPARTMENT OF EDUCATION  
PO Box 500  
TRENTON, NJ 08625-0500

CHRIS CHRISTIE  
Governor

KIM GUADAGNO  
Lt. Governor

KIMBERLEY HARRINGTON  
Acting Commissioner

February 15, 2017

Mr. Christopher Cerf  
State District Superintendent  
Newark Public Schools  
2 Cedar Street  
Newark, New Jersey 07102

Dear Mr. Cerf:

The Newark Internal Audit Unit has completed a review of district health benefits. The attached report details our review, findings and recommendations.

The district is required, pursuant to N.J.A.C. 6A:23A-5.6, to publicly review and discuss the findings in this report at a public board meeting no later than 30 days after receipt of the report. Within 30 days of the public meeting, the board must adopt a resolution certifying that the findings were discussed in a public meeting and approving a corrective action plan which addresses the issues raised in the findings. A copy of the resolution and the approved corrective action plan must be sent to this office within 10 days of adoption. Direct your response to my attention.

Also, pursuant to N.J.A.C. 6A:23A-5.6(c), you must post the findings of the report and the corrective action plan on your district's website.

If you have any questions, please contact Steven Hoffmann via phone at (973) 621-2750 or via email at [steven.hoffmann@doe.state.nj.us](mailto:steven.hoffmann@doe.state.nj.us).

Sincerely,

  
Robert J. Cicchino, Director  
Office of Fiscal Accountability and Compliance

RJC/SH:Newark Transmittal Benefits

c: Kimberley Harrington  
Robert Bumpus  
Christopher Snyder  
Steven Hoffmann  
Clarence Joffrion

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**STATE OF NEW JERSEY**  
**DEPARTMENT OF EDUCATION**  
**OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE**

**NEWARK INTERNAL AUDIT UNIT**  
**HEALTH BENEFITS AUDIT**  
**2015-2016 FISCAL YEAR**  
**FEBRUARY 2017**

Confidential: This report is solely for management purposes and is not intended for any other use.

**NEW JERSEY DEPARTMENT OF EDUCATION  
NEWARK INTERNAL AUDIT UNIT  
HEALTH BENEFITS AUDIT  
FEBRUARY 2017**

**Distribution List of Final Audit Report**

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New Jersey Department of Education

Christopher Cerf, State District Superintendent  
State Operated School District of Newark

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New Jersey Department of Education

Christopher Snyder, Deputy Chief Intervention Officer  
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Steven C. Hoffmann, Coordinating Auditor  
New Jersey Department of Education

Clarence Joffrion, Supervising Auditor  
Newark Public Schools

**NEW JERSEY DEPARTMENT OF EDUCATION  
NEWARK INTERNAL AUDIT UNIT  
HEALTH BENEFITS AUDIT  
FEBRUARY 2017**

**EXECUTIVE SUMMARY**

The Newark Internal Audit Unit has conducted an audit of medical health benefits for all eligible employees in the Newark Public Schools (District) as of May 31, 2016.

The purpose of the audit was to determine whether eligible employees were receiving the appropriate health coverage based on their selections, coverage was accurately reflected in the district database, appropriate health care contributions were deducted from employee compensation, and the district was in compliance with current regulations and district policies.

As a result of the audit, the following deficiencies were noted:

- The health plan and/or level of coverage indicated on the provider invoice did not agree with the district's PeopleSoft database for 215 (4.4 percent) of the 4,888 employees reviewed.
- Some employees are not being charged the correct health care contribution based on the coverage they are receiving.
- Birthdate errors were noted for 152 (3.1 percent) of 4,888 employees.
- Two employees did not pay the required health care contribution for an extended period of time.
- Benefits Services retroactively changed health benefit records with the use of correction mode.

The remainder of this report details the auditor's findings.

**NEW JERSEY DEPARTMENT OF EDUCATION  
NEWARK INTERNAL AUDIT UNIT  
HEALTH BENEFITS AUDIT  
FEBRUARY 2017**

**SCOPE**

The May 2016 State Health Benefits Plan (SHBP) invoice to the District contained a total of 4,888 employee names with a total cost of \$6,812,601.98. The auditors compared the list of names from the May 2016 invoice to the district's active employee roster as of May 31, 2016, which was generated from the PeopleSoft database. The auditors compared the following attributes; employee names, date of birth, health insurance plan, level of coverage selection (single, family, etc.), and social security number. A total of 368 (7.5 percent) discrepancies were noted. The exceptions were broken down as follows:

<b>Types of Exceptions Identified</b>	<b>Total Number of Exceptions</b>
Date of Birth	152
Health Plan	128
Level of Coverage	87
Social Security Number	1
<b>TOTAL</b>	<b>368</b>

Of the 368 exceptions identified, the auditors sampled 53 employees to investigate the exceptions by reviewing employee benefit folders. The employee benefit folders should contain the employee's original and all subsequent elections of benefit plans and level of coverage, as well as, the correct social security number and date of birth. The auditors reviewed available documentation to determine the reason for the discrepancy between the invoice and district records.

**BACKGROUND**

District employees may select from benefit plans offered by two providers contracted by the District; Horizon Blue Cross Blue Shield (HBCBS), and Aetna for the audit period. The premiums charged to the District are based on a four tiered level of coverage rate; single, member and spouse/domestic partner, family, and parent/child. The combination of health plan and tier of coverage selected by the employee would determine the contracted amount billed to the District. The employee's contribution toward the premium is established under Chapter 78, P.L.2011 based on a sliding scale which factors the employee's annual compensation and tier of coverage. The contracted rates change on a calendar year basis.

The May 2016 SHBP's invoice to the District contained a total of 4,888 employee names with a total cost of \$6,812,601.98. The auditors compared the list of names from the May 2016 invoice to the active employee roster generated from the PeopleSoft database and noted all exceptions.

Pursuant to Chapter 78, P.L. 2011, all full-time eligible employees who participate in medical benefits must also make monetary contributions based on a percentage of their annual salary towards their coverage. These contributions are taken as deductions from the employee's bi-monthly paycheck. The total employee contribution for 4,863 active employees towards their

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NEWARK INTERNAL AUDIT UNIT  
HEALTH BENEFITS AUDIT  
FEBRUARY 2017**

health plans for May 2016 was \$1,626,387.56. The disparity in active employees to invoiced employees may be due to timing of terminations from SHBP.

Benefits Services, a unit within the Office of Talent, administers all processes of employees' benefits from initial hiring to open enrollment to termination for all active employees. Benefits Services inputs the data of plan provider and level of coverage into PeopleSoft via a drop-down menu, which triggers the calculation to be deducted from the employee's paycheck. During the course of the audit, Benefits Services, where possible, implemented changes to correct problems noted by auditors.

**FINDINGS AND RECOMMENDATIONS**

1. **The health plan and/or level of coverage indicated on the provider invoice did not agree with the District's PeopleSoft database for 215 (4.4 percent) of the 4,888 employees reviewed.**

The auditors compared health plans and level of coverage elections from the PeopleSoft database to the SHBP's invoice for May 2016. The auditors noted a total of 215 employee records that did not agree. Specifically, the auditors noted 128 differences in health plan providers and 87 differences in level of coverage. The auditors reviewed the files of 21 (9.7 percent of exceptions) employees with records that did not agree. In 16 cases the information in the employee file agreed with the information recorded in the PeopleSoft data base, in two cases the documentation did not agree to either the provider's or PeopleSoft's records, and in three cases the employee file did not contain information of health plan elections (Exhibit 1). It is not clear; however, if documentation is missing from the employee file or, if the provider is not providing the requested level of coverage.

**Recommendation**

The auditors recommend that District management investigate and determine the cause of each of these exceptions and make all necessary adjustments. The auditors further recommend Human Resource Services (HRS) work with the provider to generate a program to mechanically match their eligible district members and coverage to the active employees and their coverage in PeopleSoft. This program could be run periodically and any differences should be investigated and corrected when necessary. Employee health plan elections should be documented in the employee's personnel file.

2. **Some employees are not being charged the correct health care contribution based on the coverage they are receiving.**

Pursuant to Chapter 78, P.L.2011, New Jersey public employees are required to contribute toward the cost of health care coverage based upon a percentage of the cost of coverage. The percentage of contribution is determined based upon an employee's compensation and level of coverage.

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Based on the errors in recording employee health plans and level of coverage in the district PeopleSoft database, as detailed in Finding 1 above, the auditors noted that employee health care contributions were not always calculated based on the cost of the coverage they were actually receiving. The auditors reviewed supporting documentation for 17 (8 percent of exceptions) of the 215 discrepancies noted in Finding 1 and noted the following:

- Seven employees were overcharged a total of \$15,164 for health benefits (Exhibit 2).
- Two of the employees overcharged had waived benefit coverage, but were still charged.
- Ten employees were undercharged a total of \$10,104 for health benefits (Exhibit 3).

**Recommendation**

As recommended in Finding 1, all discrepancies in health plan elections and level of service should be investigated to ensure that the PeopleSoft database accurately reflects the coverage employees are actually receiving. Employee health care contributions should be recalculated for these employees to determine any under or over charges. The District should consider reimbursing employees who were overcharged for benefit contributions and recovering funds from employees who were significantly under charged.

**3. Birthdate errors were noted for 152 (3.1 percent) of 4,888 employees.**

The auditors noted a total of 152 (3.1 percent) of 4,888 birthdate errors when comparing birthdates from the PeopleSoft database to the SHBP's invoice for May 2016. The auditors reviewed the birthdates of 16 employees with differences. It was determined that 15 of the 16 discrepancies reviewed were the result of district staff entering birthdates incorrectly into the PeopleSoft database (Exhibit 4). Employee birthdates are entered into PeopleSoft by the Office of Talent at the time of their initial hire.

**Recommendation**

The auditors recommend that the Office of Talent accurately enter birthdates to reflect the documentation provided by the employees. In addition, a second individual should confirm all information is correct prior to the information becoming "live" in PeopleSoft. The district should do a periodic electronic comparison of the provider records with the district database to identify any discrepancies.

**4. Two employees did not pay the required health care contribution for an extended period of time.**

The auditors compared employees listed on the vendor invoice with a district PeopleSoft report of employees making health care benefit contributions. The auditors investigated all employees

**NEW JERSEY DEPARTMENT OF EDUCATION  
NEWARK INTERNAL AUDIT UNIT  
HEALTH BENEFITS AUDIT  
FEBRUARY 2017**

receiving health benefits, but not making contributions. The auditors discovered two employees were not making their required health benefits contributions. The two employees appeared on the

May 2016 invoice receiving single coverage from NJDirect 10 and Aetna Freedom 10, respectively. One employee did not make contributions from November 24, 2014 through June 15, 2016, resulting in an under payment of \$3,530.35. The other employee did not make contributions from February 5, 2015 through June 15, 2016, resulting in an under payment of \$2,467.93 (Exhibit 5).

**Recommendation**

The auditor's recommend that the District ensure all employees receiving medical benefits are properly contributing per Chapter 78. The District should consider recovery of unpaid contributions.

**5. Benefits Services retroactively changed health benefit records with the use of PeopleSoft correction mode.**

The auditors noticed discrepancies between two reports generated by the District which should have been identical. During the month of June 2016, the auditors requested a health benefit report from the PeopleSoft database as of May 2016 in order to reconcile to the May 2016 health benefits invoice. In September 2016, the auditors requested the same report for the same time frame to obtain additional fields of data that were not present in the initial report. The auditors confirmed that some discrepancies in the report generated in June 2016 were now corrected in the report generated in September 2016. The auditors investigated the reason for the discrepancies and discovered there is a capability called correction mode in the PeopleSoft system. In the correction mode, those who have access can make changes to employee's benefits without leaving a trail for the external user to know when the information was last updated.

**Recommendation**

The auditors recommend that correction mode access be limited only to the Business Administrator/Certifying Officer of Benefits and that proper documentation be kept on file to justify any changes. The PeopleSoft database should incorporate a function to let external users know when the screen was last updated, preferably with a date and time imprint. A report of correction mode entries should be developed for management review. In addition, Benefits Services should investigate the reasoning for the changes done in correction mode and provide a response to the auditors.



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FEBRUARY 2017**

**Observations**

As of September 2016, Aetna became the sole provider for medical benefits and employees were transferred to comparable plans as indicated by the prior vendor. A reconciliation of employee benefit coverage between the vendor records and district PeopleSoft records is recommended.

The handbooks distributed to union and nonunion employees are out of date and encompass outdated information regarding medical benefits. The District should review handbooks and update as needed to reflect current information and processes.

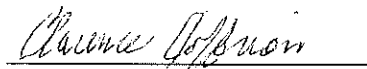
The auditors noted a lack of communication and dissemination of information between the various departments (Benefit Services, HRS, and Records Verification). For example, if an employee reports a change in marital status or address to HRS, Benefits Services is not notified of the change. Benefit Services is only aware of the change if they are also contacted by the employee. The District should develop procedures to enhance the communication and flow of information between departments.

The Internal Audit Unit last issued an audit on health benefits in January 2008. The district has made significant progress in implementing the agreed upon corrective actions and eliminating the deficiencies noted in the original audit. However, additional action is required to correct the remaining deficiencies as noted in this report.

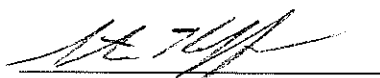
**Auditors**

Dwayne Ortiz  
Patricia Sewak

Submitted by:

  
\_\_\_\_\_  
Clarence Joffion  
Supervising Auditor

Approved by:

  
\_\_\_\_\_  
Steven C. Hoffmann  
Coordinating Auditor

**Newark Public Schools  
Internal Audit Unit  
53 Sample Health Benefit Audit -  
Invoice Not Aligned with Peoplesoft  
15/16 Fiscal Year**

<u>EMPLOYEE ID</u>	<u>POSITION</u>	<u>Salary</u>	<u>PeopleSoft Information as of May 2016</u>	<u>State Health Benefits' Invoice as of May 2016</u>	<u>Information Examined Per Auditor</u>
33373	Behavior Specialist	\$95,629.00	Family Coverage	Parent with Child Coverage	Family Coverage
31713	Teacher Elementary	\$93,044.00	Member + spouse coverage	Single coverage	Member + spouse coverage
13386	Teacher Aide 6 Hours	\$32,262.00	Family Coverage	Parent with Child Coverage	Family Coverage
12028	Security Guard	\$47,552.00	Family Coverage	Parent with Child Coverage	Family Coverage
36481	Social Worker	\$96,706.00	Family Coverage	Parent with Child Coverage	Family Coverage
30761	Guidance Counselor	\$78,025.00	Family Coverage	Parent with Child Coverage	Family Coverage
32586	Teacher Aide 6 Hours	\$31,712.00	Family Coverage	Parent with Child Coverage	Family Coverage
10969	Security Guard	\$41,152.00	Family Coverage	Parent with Child Coverage	Family Coverage
15304	Tchr English Second Language	\$ 100,594.00	Family Coverage	Parent with Child Coverage	Family Coverage
47192	Tchr English	\$ 75,500.00	Family Coverage	Parent with Child Coverage	Family Coverage
17610	Tchr Special Education	\$ 101,994.00	Family Coverage	Parent with Child Coverage	Family Coverage
40572	Cash/FSW 2	\$ 15,059.00	Aetna HMO plan	NJDirect 10 plan	Aetna HMO plan
39019	VP Secretary	\$ 99,286.00	NJDirect 15 plan	NJDirect 10 plan	NJDirect 15 plan
32480	Tchr Spanish	\$ 61,028.00	Aetna HMO plan	Aetna Freedom plan	Aetna HMO plan
37012	Tchr Bilingual Education	\$ 51,012.00	NJDirect 2030 plan	NJDirect 10	NJDirect 2030 plan
33049	Senior Cook	\$ 26,842.00	NJDirect 2035 plan	Aetna Freedom 2035 plan	NJDirect 2035 plan
35016	Teacher Special Education	\$76,000.00	NJDirect 15	NJDirect 10	NJPlus
30156	Principal Elementary	\$132,139.00	NJDirect 15	NJDirect 10	Unable to Determine
33324	Tchr Special Education	\$93,044.00	NJDirect 15	NJDirect 10	Unable to Determine
15236	Tchr Physical Education	\$103,179.00	NJDirect 15	NJDirect 10	Unable to Determine
33613	Academic Interventionist	\$66,533.00	NJDirect 15	NJDirect 10	NJPlus

Total

21

**EXHIBIT 1**

Newark Public Schools  
 Internal Audit Unit  
 53 Sample Health Benefit Audit -  
 Employee Overpaying the District  
 15/16 Fiscal Year

EMPLOYEE ID	POSITION	Salary	PeopleSoft Information as of May 2016	State Health Benefits' Invoice as of May 2016	Information Examined Per Auditor	X the column		January - May 2016	January - December 2015	Total
						Provider needs to make a change	District needs to make a change	Employee deduction per paycheck - overpaying	Employee deduction per paycheck - overpaying	
31713	Teacher Elementary	\$93,044.00	NJDirect 10 plan with member + spouse coverage	NJDirect 15 plan with single coverage	Actna Freedom 15 plan with member + spouse coverage	X	X	\$103.86	\$198.29	\$302.15
30740	Teacher Aide 6 Hours	\$33,416.00	NJDirect 10 plan	NJDirect 15 plan	NJDirect 15 plan		X	\$24.09	\$43.27	\$67.36
45036	Teacher Dance	\$95,629.00	NJDirect 10 plan	Not located in invoice	signed waiver of medical benefits in 2012		X	\$2,508.01	\$4,504.90	\$7,012.91
44796	Teacher Elementary	\$61,146.00	Actna Freedom 10 plan	Not located in invoice	signed waiver of medical benefits in 2014		X	\$2,207.18	\$4,051.66	\$6,258.84
12393	Nurse	\$90,000.00	NJDirect 10 plan	NJDirect 15 plan	NJDirect 15 plan		X	\$73.40	\$140.11	\$213.51
14249	Custodial Worker	\$ 45,808.00	NJDirect 10 plan	NJDirect 15 plan	NJDirect 15 plan		X	\$25.19	\$48.08	\$73.26
43200	Tchr Kindergarten	\$ 52,788.00	family coverage	member + spouse coverage	member + spouse coverage		X	\$463.83	\$772.24	\$1,236.07

Percentage of Errors Responsible 14.29% 100.00%

Total 7

Total Employee Overpayment \$15,164.10

Newark Public Schools  
 Internal Audit Unit  
 53 Sample Health Benefit Audit -  
 Employee Underpaying the District  
 15/16 Fiscal Year

EMPLOYEE ID	POSITION	Salary	PeopleSoft Information as of May 2016	State Health Benefits' Invoice as of May 2016	Information Examined Per Auditor	X the column		January - May 2016	January - December 2015	Total
						Provider needs to make a change	District needs to make a change	Employee deduction per paycheck - underpaying	Employee deduction per paycheck - underpaying	
31458	Security Guard	\$41,152.00	Aetna HMO plan	NJDirect 10 plan	NJDirect 10 plan		X	\$55.55	\$99.78	\$155.33
16250	Custodian	\$61,334.00	NJDirect 15 plan	NJDirect 10 plan	NJDirect 10 plan		X	\$90.67	\$173.10	\$263.77
39939	Teacher Bilingual Education	\$58,012.00	Aetna HMO plan	NJDirect 10 plan	NJDirect 10 plan		X	\$126.94	\$333.19	\$460.13
26849	Clerk Inventory Control	\$48,659.00	NJDirect 15 plan	NJDirect 10 plan	NJDirect 10 plan		X	\$46.30	\$85.00	\$131.30
12378	Electrician Nite	\$88,547.00	Aetna HMO plan	NJDirect 10 plan	NJDirect 10 plan		X	\$161.79	\$509.59	\$671.37
36940	Licensed Practical Nurse	\$ 56,292.00	Aetna HMO plan	NJDirect 10 plan	NJDirect 10 plan		X	\$124.56	\$274.39	\$398.95
16247	Tchr Elementary	\$ 77,025.00	Single coverage	Member + Spouse coverage	Member + Spouse coverage		X	\$1,483.28	\$2,831.72	\$4,314.99
16277	Teacher Aide 6 Hours	\$ 32,262.00	NJDirect 15 plan	NJDirect 10 plan	NJDirect 10 plan		X	\$25.91	\$49.46	\$75.36
17498	Tchr Special Education	\$ 103,179.00	Member + Spouse coverage	Family coverage	Family coverage		X	\$1,352.84	\$2,252.38	\$3,605.22
47174	Tchr English	\$ 56,244.00	Horizon HMO 2035 plan	Aetna HMO 2035 plan	Aetna HMO 2035 plan		X	\$9.75	\$17.48	\$27.23

Percentage of Errors Responsible 0.00% 100%

Total 10

Total Employee Underpayment \$10,103.66

**EXHIBIT 3**

Newark Public Schools  
 Internal Audit Unit  
 53 Sample Health Benefit Audit -  
 Incorrect Birthdate  
 15/16 Fiscal Year

Employee ID	Position	PeopleSoft Birthdate Information as of May 2016	State Health Benefits' Invoice Birthdate as of May 2016	Information Examined Per Auditor	X the column	
					Provider needs to make a change	District needs to make a change
45734	Cash/FSW 2	01/01/1975	09/03/1984	09/03/1984		X
16987	Teacher Elementary	02/09/1952	03/19/1955	03/19/1955		X
30740	Teacher Aide 6 Hours	04/20/1970	04/12/1970	04/12/1970		X
14933	VP Secretary	03/31/1952	08/21/1952	08/21/1952		X
44814	Teacher Physics	06/08/1986	08/08/1986	08/08/1986		X
32632	Teacher Elementary	07/16/1961	07/16/1967	07/16/1967		X
46365	Teacher English	05/23/1972	05/23/1992	05/23/1992		X
36940	Licensed Practical Nurse	04/12/1972	04/02/1972	04/02/1972		X
16254	Teacher Aide 6 hours	04/22/1949	04/22/1948	04/22/1948		X
19990	Teacher Aide 6 hours	11/17/1953	11/13/1953	11/13/1953		X
46625	Tchr Pre-Kinder	10/2/1958	10/21/1958	10/21/1958		X
46335	Tchr World Language/ Elementary	01/16/1989	01/16/1969	01/16/1969		X
45796	Tchr Elementary	05/8/1986	05/18/1986	05/18/1986		X
29450	Tchr Physical Education	01/01/1941	12/01/1941	12/01/1941		X
39861	Student Support Specialist	01/21/1952	01/22/1952	01/21/1952	X	
31922	Custodial Worker	05/22/1951	05/27/1951	05/27/1951		X

Total 16

Percentage of Errors Responsible 6.25% 93.75%

# EXHIBIT 4

Newark Public Schools  
 Internal Audit Unit  
 53 Sample Health Benefit Audit - Unable to  
 Determine Health Plan  
 15/16 Fiscal Year

EMPLOYEE ID	HIRE DATE	POSITION	Salary	PeopleSoft Information as of May 2016	State Health Benefits' Invoice as of May 2016	Information Examined Per Auditor	X the column		Employee deduction per paycheck - underpaying	Employee deduction per paycheck - underpaying	Total
							Provider needs to make a change	District needs to make a change			
34074	2/5/2015	Teacher Bilingual Education	\$51,012.00	No information	Aetna Freedom 10	Enrolled to pay into benefits as of 6/15/16		X	\$ 907.93	\$1,560.00	\$ 2,467.93
46730	11/24/2014	Teacher Elementary	\$61,146.00	No information	NJDirect 10	Enrolled to pay into benefits as of 6/15/16		X	\$ 1,213.56	\$ 2,316.79	\$ 3,530.35

Total 2

\$ 5,998.28