

**BROOME COUNTY  
DEPARTMENT OF  
AUDIT AND CONTROL**

**SIEBA ESCROW ACCOUNT  
MANAGEMENT REQUESTED CONTROL REVIEW**

**AUGUST 2001**

*Alex J. McLaughlin, Comptroller*

August 27, 2001

Joseph T. Peckham, Risk Manager:

The Department of Audit and Control has reviewed the Health Insurance benefits escrow account activity as requested by the Risk and Insurance Department.

The principle objective of our review was to provide reasonable assurance that the Health Plan Administrator (Sieba, Ltd.) is properly managing the Health Insurance benefits escrow account.

The scope of our review was limited to ensuring that the escrow account was being administered in accordance with the terms of the county's contract with Sieba, Ltd. The activity that we reviewed was from the period January 1, 2000 through December 31, 2000.

Based on the results of our examination, it is our opinion that Sieba, Ltd. is properly managing the Health Insurance benefits escrow account, though not in accordance with the terms of the applicable contract. It is also our opinion that the agreement should be substantially modified to better achieve the objectives and goals of the Health Plan.

Sincerely,

Alex J. McLaughlin  
Comptroller

cc: Daniel A. Schofield, Chairman of the Legislature  
Members of the Legislature  
Louis P. Augostini, Clerk of the Legislature  
Jeffrey P. Kraham, County Executive

## **BACKGROUND:**

The purpose of our review was to provide reasonable assurance that Sieba is properly managing the Health Insurance benefits escrow account.

We reviewed the current contract and materials provided by Sieba and the Risk and Insurance Department.

We reviewed bank activity and monthly reconciliations for the year 2000, as well as examining a sample of disbursements and receipts.

We did not examine claims for the purpose of verifying their appropriateness.

The Health Insurance benefits escrow account was created in 1991 in accordance with Article 5 of the Broome County Government Health Service Plan Service Agreement. This escrow account is only supposed to be used for the Health Insurance benefits, but has grown to include the Broome County Government and Broome Community College Flexible Spending Plan payments.

The escrow account exists for the payment of benefits to health care providers. As the Health Plan Administrator, Sieba issues checks weekly from this account, on behalf of Broome County Government, to the health care providers. Broome County Government then funds the account with the total dollar amount of checks written. Under the terms of the Agreement, Broome County Government deposited \$300,000 to start this account. The \$300,000 is used to pay the checks written by Sieba before Broome County Government funds the account. According to the Agreement the account should be equal to the total amount of drafts expected to be charged to the account during a six-week period. Currently, the amount of \$300,000 will only cover one weekly cycle of checks written.

During the course of our review, we noted the following conditions where current practice is either not optimal or at variance with management's control design:

- £ The bank account that has been established for the escrow is not a Broome County account as stipulated in the County's contract with Sieba. (We did observe however, that the funds in the account have been collateralized by the Bank as if this was a County account.)
- £ Funds from both the County and Broome Community College Flexible Spending Plans have been co-mingled with the Health Plan funds in the same bank account.
- £ The method used for funding Health Plan disbursements is antiquated and should be improved.
- £ There is an average balance of nearly \$400,000 held in the escrow account that does not earn any interest.

We believe that these conditions can be improved by implementing the following changes:

- £ Formalize the current condition as regards to the bank account and associated responsibilities. Operationally, it makes sense for Sieba to control the account.
- £ Change the status of the account from non-interest bearing to interest bearing. (So long as this change does not trigger service charges in excess of the interest income benefit.)
- £ Clarify the County's position relative to Flexible Spending Plan funds management. Pooling the Flex Plan monies with the Health Plan monies is not necessarily bad, but it should be clearly stated as to how such pooling is to be accounted for and administered.
- £ Discontinue the current practice of seeding the escrow account and replenishing it on a weekly basis. Implement a new procedure, whereby Sieba would e-mail the proposed disbursement register and related funding requirements to the Department of Risk and Insurance, rather than mailing these materials as is done now. Risk and Insurance, upon review and approval of the disbursement, would then request that the required funding be wire transferred into the escrow account, whereupon Sieba would cut and release the checks. This would eliminate the need for any "cushion" balance to be maintained in the account.
- £ Modify the County's agreement with Sieba, Ltd. to properly reflect up to date terms and conditions.