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October 16, 1995

Ms. Claire Sussman, Director
Bureau of Categorical Claims
New York City Board of Education
65 Court Street, 18th Floor
Brooklyn, New York 11201

Re: Letter Report - Review of
NYC Board of Education 1994
Fringe Benefit Rates, No. A-9-96

Dear Ms. Sussman:

We have completed our annual review of the New York City Board of Education (BE) Fringe Benefit Rates for Fiscal Year 1994. This review was conducted to determine if the fringe benefit rates used by BE to prepare its claims to the Federal and State governments for reimbursable programs were correct.

For Fiscal Year 1994, BE filed for \$1.3 billion in reimbursements, of which \$234 million represents fringe benefits. BE claims include the actual direct personal service (PS) costs of those BE employees who work in reimbursable programs, other-than-personal service costs, and fringe benefits.

The calculated fringe benefit rates are applied to claimed personal service costs. The rate appropriate to each category of employee must be used, since BE's employees are divided into three payroll categories for fringe benefit calculations.

We reviewed the fringe benefit rate submission to ensure that the calculations were supported by appropriate accounting records and resulted in an equitable distribution of fringe benefit costs to the three categories of direct personal service costs. Our review included verifying the amounts shown in the claim to various summary ledgers

and supporting payment vouchers. Of note were significant changes we made to two of the fringe benefit rates, as follows:

- C The Annual Pedagogic (teachers) fringe benefit rate has been reduced due to a change in the method used to determine the pension costs. In prior years a fixed percentage rate was calculated based on the pension costs for the current year and the prior year's payroll costs. For fiscal 1994, actual pension costs have been obtained from the Chief Actuary and were used to calculate the overall fringe benefit rate. This results in a more accurate rate for allocating costs. (See Schedule A.)
- C The Non-Pedagogic (administrators and paraprofessionals) fringe benefit rate has been increased due to a combination of an error in BE's calculation and an increase due to the change in the method of accounting for pension costs from a fixed percentage rate to actual pension costs. (See Schedule C.)

Listed below is a comparison between the fringe benefit rates for each of the payroll categories, per claim and per review:

<u>Payroll Categories</u>	<u>Per Claim</u>	<u>Per Review</u>	<u>Difference</u>
Annual Pedagogic	30.26%	28.14%	-2.12%
Hourly and Per Diem	10.28%	10.08%	-0.20%
Non-Pedagogic	30.79%	32.28%	1.49%

Details are provided in the schedules and supporting exhibits that are attached.

In response to a draft of this report, the Bureau of Categorical Claims concurred with our findings.

Very truly yours,

Allen M. Vann, Director
New York City Audit Bureau

cc: J. Coney
G. Hamilton

New York City Board of Education
Fringe Benefit Rates
For Fiscal Year 1994

ANNUAL PEDAGOGIC RATE

Fringe Benefits:		<u>Per Claim</u>	<u>Per Review</u>	<u>Notes</u>
Health Cost		\$ 247,154,529	\$ 247,022,356	(1)
FICA Cost		261,557,211	264,215,896	(2)
Welfare Cost		91,649,770	93,235,227	(3)
Annuity Cost		19,617,959	19,617,959	
Pension Cost			353,883,550	(4)
Unemployment Insurance Benefits		4,735,230	4,724,114	(5)
Total*	(a)	<u>\$ 624,714,700</u>	<u>\$ 982,699,102</u>	
Payroll:				
Payroll Cost		\$3,540,807,692	\$3,534,734,919	(6)
Less: Voided Checks		42,586,893	42,596,536	(7)
Total	(b)	<u>\$3,498,220,799</u>	<u>\$3,492,138,383</u>	
Basic Rate	(a) / (b)	17.86%	28.14%	
Pension Rate		12.40%		(4)
Pedagogic Rate		<u>30.26%</u>	<u>28.14%</u>	

* Difference due to rounding

Notes:

- (1) This represents health benefit costs for 72,144 pedagogic employees. The cost was reduced by \$132,173 because there was a difference between the amount claimed and the expenditures in the records provided by the Office of Labor Relations.
- (2) Federal Insurance Contributions Act (FICA) costs were increased by \$2.7 million. This was the net of an understatement of the FICA cost by BE in the

- amount of \$5.9 million and an adjustment made of \$3.2 million to account for the portion of FICA associated with voided payroll checks. BE personnel have not provided the reason(s) for the difference of \$5.9 million. However, the data used by BE in this year's computation was obtained from the Office of Budget Operations and Review and in prior years the Payroll Accounting Unit provided the cost data for FICA.
- (3) Welfare costs were increased by \$1.6 million. BE personnel did not include an adjusting payment of \$1.5 million to the United Federation of Teachers (UFT), nor did it include any of the \$38,211 paid to the UFT on behalf of school medical inspectors.
 - (4) BE's pension rate was determined by dividing the amount of pension contributions made by the City according to the New York City Actuary by the prior year's payroll cost. Instead of computing the pension based on a percentage relationship, we included the actual dollar amount of pension costs as reported in "Letters of Appropriation" (prepared annually for each pension system by the City Actuary) in the total for all fringe benefit costs.
 - (5) Unemployment Insurance Benefit (UIB) costs were reduced by \$11,116 due to the elimination of payments for interest and penalties (which are not considered fringe benefits) and a reallocation among the three payroll categories due to adjustments to the average numbers of employees on payroll.
 - (6) Payroll costs were overstated by \$6.1 million as a result of posting errors in BE's worksheets.
 - (7) The total for voided checks was adjusted to reflect an additional \$9,643 in checks voided subsequent to BE's calculation of the rate.
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New York City Board of Education
Fringe Benefit Rates
For Fiscal Year 1994

HOURLY AND PER DIEM RATE

Fringe Benefits:		<u>Per Claim</u>	<u>Per Review</u>	<u>Notes</u>
Health Cost - DE170		\$ 1,945,883	\$ 1,944,842	(1)
FICA Cost - DE170		5,396,687	4,907,329	(2)
FICA Cost - DE470		10,056,263	10,075,746	(2)
Welfare Cost - DE170		1,262,790	1,356,930	(3)
Unemployment Insurance Benefits		1,523,947	1,502,709	(4)
Total*	(a)	<u><u>\$ 20,185,570</u></u>	<u><u>\$ 19,787,557</u></u>	
Payroll:				
Payroll Cost - DE170		\$ 64,211,183	\$ 64,211,183	
Payroll Cost - DE470		132,102,365	132,102,385	
Total	(b)	<u><u>\$196,313,548</u></u>	<u><u>\$196,313,568</u></u>	
Hourly and Per Diem Rate				
	(a) / (b)	<u><u>10.28%</u></u>	<u><u>10.08%</u></u>	

* Difference due to rounding

Notes:

- (1) This represents health benefit costs for 568 of the employees on the per diem payroll (DE170). This cost was reduced by \$1,041 because there was a difference between the amount claimed and the expenditures in the records provided by the Office of Labor Relations.
- (2) FICA was overstated by \$489,000 for DE170, and understated by \$19,000 for the hourly payroll (DE470). BE officials could not explain why these differences occurred, however, it was noted that for fiscal 1994 the source of information changed from BE's Payroll Accounting unit to the Office of

Budget Operations and Review.

- (3) Welfare benefits were understated by \$94,000 for an undetermined reason.
 - (4) We reduced Unemployment Insurance Benefit costs by \$21,238 for a) interest and penalties (which are not fringe benefits) and b) a reallocation of costs to the three payroll categories due to adjustments to the average numbers of employees.
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New York City Board of Education
Fringe Benefit Rates
For Fiscal Year 1994

NON-PEDAGOGIC RATE

Fringe Benefits:		<u>Per Claim</u>	<u>Per Review</u>	<u>Notes</u>
Health Cost - H Bank		\$ 29,249,908	\$ 29,234,266	(1)
Health Cost - E Bank		91,028,263	90,979,583	(1)
FICA Cost - H Bank		24,706,807	22,220,344	(2)
FICA Cost - E Bank		42,457,020	40,451,899	(2)
Welfare Cost & Annuity - H Bank		9,301,104	9,735,259	(3)
Welfare Cost - E Bank		21,475,783	34,339,050	(4)
Tuition		4,562,175	4,562,175	
Stipends		154,920	154,920	
Pension Cost			42,329,479	(5)
Unemployment Insurance Benefits		2,917,148	2,905,238	(6)
Workers' Compensation		10,348,547	10,814,982	(7)
Total*	(a)	<u>\$236,201,675</u>	<u>\$287,727,194</u>	
Payroll:				
Payroll Cost - H Bank		\$317,448,735	\$317,715,068	(8)
Payroll Cost - E Bank		578,250,827	577,880,450	(9)
Less: Voided Checks - H Bank		4,241,880	4,241,579	
Total*	(b)	<u>\$891,457,682</u>	<u>\$891,353,938</u>	
Basic Rate	(a) / (b)	26.50%	32.28%	
Pension Rate		4.29%		(5)
Non-Pedagogic Rate		<u>30.79%</u>	<u>32.28%</u>	

* Difference due to rounding

Notes:

- (1) This represents health benefit costs for 8,538 administrative employees (H Bank) and 26,571 hourly supportive employees (E Bank). This cost was reduced by \$15,642 for the H Bank and \$48,680 for the E Bank because there

was a difference between the amount claimed and the expenditures in the records provided by the Office of Labor Relations.

- (2) FICA costs were overstated by \$2.5 and \$2.0 million for both the H Bank and the E Bank. BE officials did not provide specific reasons for these differences. However, it was noted that the source of this information for fiscal 1994 was the Office of Budget Operations and Review and not the Payroll Accounting unit as in prior years.
 - (3) Welfare and annuity costs were understated for the H bank by \$452,000. This was the net effect of several computational errors as well as failure to include all payments. For example, Local 9 (a new union) costs were not included even though \$556,000 in payments were made.
 - (4) Welfare costs for the E bank were understated by \$12.9 million. This was the result of several errors in BE summary sheets. For example, the UFT Paraprofessional's union payments were recorded as \$7.2 million, instead of \$17.2 million. Additionally, BE did not include \$0.3 million in retroactive payments not claimed in prior years and \$2.6 million, consisting of all of the payments made on behalf of the Hourly DC 37 Resignees.
 - (5) See note 4 to Schedule A.
 - (6) Unemployment Insurance Benefit costs were reduced by \$11,910 due to the elimination of payments for interest and penalties (which are not fringe benefits) and a reallocation of costs due to adjustments to the average numbers of employees in each payroll category.
 - (7) Workers' compensation was understated by \$466,000 because it did not include a final payment made in fiscal year 1995.
 - (8) Payroll costs for the H bank were understated by \$266,000 as a result of an arithmetic error in BE's fringe benefit rate computation worksheet.
 - (9) The E Bank payroll cost were overstated by \$370,000 as a result of incorrect posting to the rate computation summary sheets.
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