



Moriah Central School District

Internal Controls Over Leave Accruals

Report of Examination

Period Covered:

July 1, 2012 — January 31, 2014

2014M-84



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Moriah Central School District, entitled Internal Controls Over Leave Accruals. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Moriah Central School District (District) is located in the Towns of Crown Point, Moriah and Westport in Essex County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has one school in operation with approximately 740 students and 150 employees. The District's budgeted appropriations for the 2013-14 fiscal year are approximately \$15 million, which are funded primarily with State aid and real property taxes. The District's payroll clerk works under the direction of the Business Manager and is responsible for maintaining leave accrual records for the District.

Objective

The objective of our audit was to determine if the District had established effective internal controls over leave accruals. Our audit addressed the following related question:

- Are internal controls over the maintenance of leave accruals appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the leave accruals area and, therefore, we examined internal controls over leave accruals for the period July 1, 2012 through January 31, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Leave Accruals

A good system of accounting for employee leave time (i.e., vacation, personal, bereavement and sick) requires periodic verification that the records for leave time earned and used by employees are accurate. The District should have comprehensive policies and procedures in place that provide for periodic independent reviews of leave accrual records and balances throughout the year. It is important for procedures to be designed to ensure that leave time is earned in accordance with employment contracts or collective bargaining agreements and that leave time used is properly deducted from employee leave accruals.

The Board did not adopt comprehensive written policies and procedures to provide proper guidance and internal controls over leave accruals. There was minimal oversight of the employee leave accrual records maintained by the payroll clerk. The payroll clerk receives records containing employees' absences,¹ which she uses to deduct the amount of leave time taken from each employee's leave accrual balances. However, we found that the cafeteria manager, head custodian and committee on special education secretary submit records of their leave time used to the payroll clerk without any independent approval. In addition, other than the payroll clerk providing the leave accrual balances to the employees on an annual basis, there are no periodic reviews performed by a District official to ensure the accuracy of the leave records maintained by the payroll clerk.

We reviewed 20 employees' leave records² maintained by the payroll clerk to verify that the days employees were recorded absent on their time records were properly deducted from their leave accruals during the 2012-13 and 2013-14 fiscal years. We also verified that leave time credited and carried over during the 2012-13 and 2013-14 fiscal years agreed with employment contracts or collective bargaining agreements. We found errors in the leave accrual records for seven³ employees totaling \$4,875. For six of these employees, the data entered into the employees' leave accrual records in the financial system did not agree with the input documents. Due to errors made by the payroll clerk and minimal oversight, four days of leave time were deducted from employees' leave accrual records when they were not

¹ These records include leave request forms, departmental time records and daily attendance records for instructional staff absences.

² Appendix B contains our sampling methodology.

³ For one employee, the data entered into the leave accrual records did not agree with the input documents. This employee also carried over leave time that the employee was not entitled to.

recorded absent and nine days of leave time were not deducted from employees' leave accrual records when they were recorded absent.

In addition, we found that an employee did not have one day of unused vacation leave carried over from the 2011-12 fiscal year to the 2012-13 fiscal year that she was entitled to. We also found that the Superintendent had three days of unused bereavement leave and a half day of unused personal leave carried over from the 2011-12 fiscal year to the 2012-13 fiscal year and three days of unused bereavement leave carried over from the 2012-13 fiscal year to the 2013-14 fiscal year, although his employment contract only contains provisions authorizing the carryover of unused sick and vacation leave from one fiscal year to the next. While District officials have historically carried over bereavement and personal leave, there is no contractual provision to do so.

Although the cost to the District for these discrepancies was not material, the cumulative impact of such errors and irregularities over time could result in a substantial cost. Accurate leave records are also essential in determining the proper amount of termination payments for employees either retiring or resigning from their positions and ensuring that District employees are only compensated for contractually entitled amounts.

Recommendations

1. The Board should establish a comprehensive leave accrual policy that incorporates the duties, records and procedures that are to be followed when maintaining leave records.
2. District officials should ensure that all leave time is independently approved prior to submission to the payroll clerk.
3. An individual independent of the maintenance of leave records should periodically review leave accrual records and balances for accuracy.
4. District officials should ensure that employee leave benefits coincide with the terms of applicable collective bargaining agreements or other employment contracts.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

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BRIAN CROSS, *Athletic Director/
Dean of Students*

Moriah Central School District

39 VIKING LANE PORT HENRY, NEW YORK 12974 (518) 546-3301 FAX: 546-7895

May 29, 2014

[REDACTED]
Principal Examiner
Office of the State Comptroller
Division of Local Government and
School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

We are in receipt of the report of your audit of the Moriah Central School District for the period covering July 1, 2012 – January 31, 2014. The District appreciates the recommendations made as a result of this audit. Please accept this as our Corrective Action Plan.

1. The Board should establish a comprehensive leave accrual policy that incorporates the duties, records and procedures that are to be followed with maintaining leave records.

Response: The District has established a comprehensive leave accrual policy that details the duties, records and procedures that are to be followed with maintaining leave records which will ultimately be approved by the Board.

2. District officials should ensure that all leave time is independently approved prior to submission to the payroll clerk.

Response: All attendance sheets detailing leave time is currently being independently approved prior to submission to the payroll clerk.

ATTENDANCE IS A KEY FACTOR IN ACADEMIC SUCCESS

3. An individual independent of the maintenance of leave records should periodically review leave accrual records and balances for accuracy.
Response: An employee other than the payroll clerk is periodically reviewing leave accrual records and balances for accuracy as of the date of this letter.
4. District officials should ensure that employee leave benefits coincide with the terms of applicable collective bargaining agreements or other employment contracts.

Response: The appropriate changes have been made to the applicable agreements and contracts to reflect that employee leave benefits coincide with the terms of the agreements.

We would like to thank you for these recommendations as we are always looking to effectively manage the District's operations. Please contact me with any questions or concerns.

Sincerely,

William J. Larrow
Superintendent of Schools

WJL/ejg

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, control environment, cash receipts and disbursements, purchasing, payroll and personnel services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected leave accruals for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and employees and reviewed the District's policy manual, employment contracts, collective bargaining agreements and various financial records and reports to gain an understanding of the internal controls over the maintenance of leave accruals and any associated effects of deficiencies in those controls.
- We initially selected ten employees who were involved in the approval, reporting or maintenance of leave accrual records. We then used a computerized random number generator to select an additional ten employees who earned leave time for a combined total of 20 employees. We reviewed this judgmental sample of employees' leave records to determine if the days when the employees were recorded absent on their time records were properly deducted from their leave accruals during the 2012-13 and 2013-14 fiscal years. We also determined if leave time credited and carried over during the 2012-13 and 2013-14 fiscal years agreed with employment contracts or collective bargaining agreements.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis

for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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