



Valley Stream Union Free School District #24

Leave Accruals and Separation Payments

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-335



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

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 Valley Stream Union Free School District #24, entitled Leave Accruals and Separation Payments. 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 New York State 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 Valley Stream Union Free School District #24 (District) is located in the Town of Hempstead in Nassau County. The District is governed by the Board of Education (Board), which is composed of seven 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Director of Finance and Operations supervises all Business Office functions, including overseeing the payroll clerk who maintains employees' leave accrual records and calculates and processes all of the District's separation payments.

The District operates three elementary schools with approximately 1,100 students and 226 employees. The District's total expenditures for the 2014-15 fiscal year were about \$27 million, which were funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to examine the District's accounting for leave time and separation payments. Our audit addressed the following related question:

- Did District officials properly account for employees' leave accruals and correctly calculate separation payments?

Scope and Methodology

We examined the District's procedures and records related to leave accruals and separation payments for the period July 1, 2014 through February 29, 2016.

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 are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 indicated they planned to take corrective action. The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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 and Separation Payments

Leave accruals represent time off that employees have earned. Collective bargaining agreements (CBAs), individual employment contracts and Board-approved policies generally address the accumulation and use of leave time and establish each employee's entitlement to leave benefits. A strong system of controls over employee leave benefits and compensation at separation reduces the risk that errors or irregularities will occur and remain undetected and uncorrected. School districts often provide separation payments to employees for all or a portion of their earned but unused leave time when employees retire or otherwise separate from service. The separation payments are generally granted in the negotiated CBAs or individual employment contracts, which can be rather significant expenditures for the District. As such, District officials must ensure that the separation payments are accurate and authorized and that employees receive payments for only the amounts to which they are entitled.

The District's CBAs and individual employment contracts include provisions for eligible employees to earn and use leave time. Five of the six CBAs we reviewed allow the employees to receive a payment for unused sick leave upon retirement or separation from the District. None of the contracts reviewed included a provision for unused vacation days to be carried forward to the following year.

In the spring of 2014, the Board approved memoranda of agreement (MOAs) with the Valley Stream Teachers' Association and the Educational Office Personnel Unit establishing separation incentive programs for employees who separated from District employment and met certain qualifying conditions. The incentives allowed for the payment of accumulated sick leave at a higher rate than available pursuant to the existing CBAs. Retiring teachers were eligible to receive up to, but not exceeding, \$25,000 more than the payment they would have received under the CBA. Office personnel members were eligible to receive up to, but not exceeding, \$15,000 more than the payment they would have received under the CBA.

We found that District officials did not always account for employees' leave accruals in accordance with applicable agreements. As a result, the District made separation overpayments of \$14,971 during our audit period.

Leave Accruals – District officials are responsible for implementing procedures to maintain accurate leave records and ensure proper

oversight of leave benefits. The payroll clerk in the Business Office is responsible for crediting leave accruals based on CBAs and individual employment contracts, including the amount of leave time earned each year and the amount of authorized, unused leave time to be carried forward to the following year.

The payroll clerk records leave time used and deducts it from the employees' remaining leave accrual balances, based on attendance records. Additionally, the payroll clerk prepares and distributes annual, written statements to the employees showing the available leave accrual balances for each employee. Employees are responsible for reviewing the statements and notifying the payroll clerk of any discrepancies. While the payroll clerk performs all these duties related to leave accruals, we saw no evidence that anyone reviewed or reconciled the records maintained by the payroll clerk. Further, we found transactions that were not in accordance with the terms of written agreements authorized by the Board.

We reviewed the records of leave time earned, used and remaining at separation for 10 employees. While the payroll clerk generally maintained accurate records and performed procedures to check her own work, we found that:

- One employee, who had exhausted all available sick leave, received a leave donation of 27.5 days of sick leave totaling \$16,900 from the Assistant Superintendent, which was not consistent with written employment agreements.
- The Assistant Superintendent carried over and used 6.5 vacation days from the previous year, at a value of \$5,920, even though his employment contract agreement stated that unused annual vacation time for the respective school year will be deemed forfeited.

The failure to regularly review and periodically reconcile employees' leave accrual balances may result in employees receiving and using leave benefits to which they are not entitled.

Separation Payments – Employees who separate from District service may be eligible for payments for their unused leave time as specified in their CBAs or individual employment contracts. Retiring employees may also be eligible to receive payments from retirement incentives. Eligibility for certain payments can vary based on factors such as an employee's retirement and hire dates. After the Board approves an employee's separation, the payroll clerk uses the applicable CBA to calculate any separation payment or benefits to which the employee may be entitled.

Although the provisions in the CBAs specify how the various components of the separation payments are to be calculated, District officials do not have written policies or procedures in place to provide guidance to employees and District officials to ensure that the payment calculations are reviewed, approved, accurate and sufficiently supported. We were told that, while it is now the Director of Finance and Operation's responsibility, it was the former Assistant Superintendent's responsibility to review and approve such payments during our audit period. However, we found no evidence that anyone reviewed or approved the accuracy of the payroll clerk's calculations before the separation payments were made. As a result, District officials overpaid two separation payments by a total of \$14,971.

We reviewed the calculations for the nine separation payments totaling \$412,859 that District officials made during the audit period. District officials did not provide guidance that specified the required documentation needed to support each calculated payment. As a result, the clerk did not have a standard separation payment calculation and pertinent information needed to calculate the payment was not always readily available. For example, the payments to two individuals did not appear to be calculated correctly, based on the hire dates maintained in the financial software. While officials were subsequently able to provide documentation supporting these payments, this information should have been documented and reviewed prior to the payment being made. Of the nine payments reviewed, two were overpaid as follows:

- One employee received a separation payment of \$26,290 instead of the \$13,145 to which she was entitled, resulting in an overpayment of \$13,145.
- One employee received a separation payment of \$3,652 instead of the \$1,826 to which she was entitled, resulting in an overpayment of \$1,826.

These two employees were overpaid because they were paid for more of their unused leave days than what is authorized in the contract.¹ The Director of Finance and Operations told us that the District was repaid the \$1,826. Officials are also in the process of arranging for a reimbursement to be made to the District for the other overpayment.

¹ The contract authorizes that unused sick leave is paid on a basis of one day of leave for each two days for the first 150 days of unused leave for employees hired before 1988. Employees hired after 1988, which these employees were, should be paid one day for each four days of leave for the first 200 days. Instead of receiving the payment based on 25 percent of their leave days, their payments were paid based on 50 percent of their days.

The failure of District officials to review separation payments and to maintain adequate and sufficient support may result in employees receiving benefits to which they are not entitled.

Recommendations

The Board and District officials should:

1. Establish and implement procedures for the review and periodic reconciliation of employees' leave accrual balances.
2. Review the inaccurate leave accrual balances identified in this report and take appropriate action to correct them.
3. Develop and adopt procedures to ensure that separation payment calculations are documented, adequately supported, accurate, reviewed, approved and consistent with Board-adopted agreements.
4. Continue the recovery of the overpayments identified in this report.

The Superintendent should:

5. Review the Assistant Superintendent's leave accruals to ensure that they are maintained in accordance with written agreements.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Jack R. Mitchell
Director of Finance & Operations

Edward M. Fale, Ph. D.
Superintendent of Schools

November 3, 2016

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School Attorney

Dear Chief Examiner:

We are in receipt of the draft *Report of Examination* on the Valley Stream Union Free School District #24 Leave Accruals and Separation Payments for the period of July 1, 2015 – February 29, 2016. The report was reviewed with the Board Vice-President, the Superintendent, and the Director of Finance at an exit conference on November 1, 2016. We would like to extend our gratitude to the examiners from the Office of the State Comptroller involved in this audit for their professionalism and meticulous inspection of our employee records and written contractual agreements.

The District acknowledges the objectives of the audit and the recommendations listed in this report. We understand the recommendations for implementation of procedures with regard to periodically reviewing and reconciling leave accrual balances and separation payment calculations with supporting documentation. We affirm the two overpayments logged in this report as having been identified by the District prior to the audit and actively being pursued for reimbursement. Additionally, the District will seek to uphold the leave accrual findings and continue to take all necessary action within reason to correct them. The items identified regarding a leave donation by a particular employee were due to a misinterpretation of the parameters of a special sick bank arrangement made by the Board of Education for a seriously ill employee. Corrective action has been taken and will be described in our Corrective Action Plan.

We accept this draft report and we will submit our *Corrective Action Plan* following the receipt of the final report as required within the ninety-day time frame. Moving forward, our plan will be designed to address all recommendations listed while more effectively managing our operations and meeting the expectations of our constituents.

Respectfully Submitted,

Edward M. Fale, Ph.D.
Superintendent of Schools
jmo

Jack R. Mitchell
Director of Finance & Operations

“WE TAKE PRIDE IN OUR SCHOOLS”
www.valleystreamschooldistrict24.org

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and staff to gain an understanding of the procedures in place to account for employees' leave accruals and to process and approve separation payments.
- We reviewed CBAs and individual contract agreements to identify the terms for earning leave and authorizing separation payments.
- We inquired of District officials and analyzed data provided from the District's computerized financial software to identify separation payments. We identified 10 employees that separated from the District during our audit period, nine of whom received separation payments.
- We examined the leave accrual records for 10 employees who separated from the District during our audit period to determine if leave was granted in accordance with written agreements and whether the leave time balances available were correct at the times of separation.
- We examined the nine separation payments made during our audit period to determine if the payments were adequately supported and calculated correctly in accordance with the Board-approved 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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