



Brighton Central School District Separation Payments

Report of Examination

Period Covered:

July 1, 2014 – March 23, 2016

2016M-119



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
SEPARATION PAYMENTS	4
Recommendations	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	14
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Brighton Central School District, entitled 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 Brighton Central School District (District) is located in the Towns of Brighton and Pittsford in Monroe 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 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 Assistant Superintendent of Administration (Assistant Superintendent) supervises all functions in the Business Office, including overseeing the Director of Finance, Director of Human Resources (HR Director) and a payroll clerk (clerk). The HR Director calculates all separation payments for teachers, which the Director of Finance processes, and the clerk calculates and processes all other separation payments.

The District operates five schools and an administrative building with approximately 3,960 students and 670 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$71.9 million, funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to examine the District's calculation of separation payments. Our audit addressed the following related question:

- Were separation payments calculated correctly?

Scope and Methodology

We examined the calculation of separation payments for the period of July 1, 2014 through March 23, 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. District officials generally agreed with our recommendations and indicated that they planned to initiate corrective action.

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.

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.

Separation Payments

In addition to established wages and salaries, school districts often provide separation payments to employees for all or a portion of their earned but unused leave time when the employee retires or otherwise leaves district employment. The District may also provide other retirement incentives to employees that are not based on remaining leave balances. These payments are an employment benefit generally granted in collective bargaining agreements (CBAs), individual employment contracts or Board-adopted employment policies and can represent significant district expenditures. As such, District officials must ensure that employees are paid only the amounts to which they are entitled by ensuring each payment is accurate and authorized by a Board-approved employment contract or policy.

Any changes to a CBA's provisions should be negotiated, agreed to by all parties to the agreement and formally documented in writing through a memorandum of agreement (MOA). In addition, the Board should provide formal guidance to the employees responsible for processing separation payments by adopting written policies and procedures that specify the required documentation to be maintained, provide for an adequate review before payments are made and ensure that payments are not made until the employee leaves District employment.

The District had eight CBAs, three individual employment contracts and five Board-adopted employment policies that stipulated the terms and benefits for its employees. All of the individual contracts, five CBAs and three employment policies included provisions for eligible employees to receive a payment for unused leave upon separation from District employment. In addition, employees covered by a CBA had to meet certain qualifying conditions to be eligible for a separation payment at retirement as stipulated in the applicable CBA.¹

Although provisions in the Board-adopted CBAs, contracts and employment policies specified how the various components of separation payments were to be calculated, District officials did not have written policies or procedures in place to provide guidance to employees and District officials to ensure that the separation calculations were reviewed, approved, accurately calculated and sufficiently supported.

¹ None of the employees with individual employment contracts retired or resigned from District employment during our audit period, and the employment policies did not include any specific separation payment provisions for retirement incentives.

District officials followed certain practices when processing separation payments. After the employee notified their supervisor or building principal of their intent to leave District employment, the supervisor submitted a signed personnel recommendation form or the employee's letter of intent to retire to the Human Resources department. The HR Director then signed or prepared a personnel recommendation form after verifying years of service and effective date of separation. The Assistant Superintendent reviewed and signed the form, which generally lacked supporting documentation, and the HR Director provided it to the Board for review and approval. After the Board approved the separation, the form was either given to the HR Director (to calculate teacher payments) or the clerk (to calculate all nonteaching employee payments). The District used the following payout methods for teachers and other staff:

- Payment to Teachers – The HR Director used a standard calculation form that listed the qualifying conditions for eligibility of retiring teachers to receive a separation payment. She reviewed the teacher's information and entered employee specific data (such as number of leave days and years of service) on the form. The HR Director then transferred this information to a spreadsheet, filed the form in the employee's personnel file and gave the spreadsheet to the Director of Finance for processing without supporting documentation. The Director of Finance stored this spreadsheet until the end of the school year when she verified the employees' final leave balances, made any necessary adjustments to the payment amounts based on any changes to leave balances since the initial calculation and processed the wire transfers to the employees' 403(b) accounts. District officials did not verify eligibility requirements or review the HR Director's calculations.
- Payment to Non-Teaching Employees – The clerk reviewed the applicable CBA or employment policy to determine whether the employee was eligible for a separation payment and prepared the payment calculation. After performing the calculations she then processed the separation payment through payroll. Although the Assistant Superintendent reviewed and certified the payroll, no one independent of the process reviewed or approved the clerk's calculations.

During our audit period, the District had 112 employees who left District service and 39 received separation payments totaling \$300,264. To determine if these payments were appropriate and accurate, we reviewed the terms of separation for each of these employees per their applicable CBA or employment policy. We

also reviewed available calculations and recalculated the separation payments.

The clerk did not use a standard separation payment calculation form and District officials did not provide guidance specifying the required documentation needed to support each payment calculation and the methodology to be used. We found that the clerk did not maintain calculations for three employees' separation payments totaling \$21,269 (7 percent) and maintained incomplete calculations (no totals listed) for 10 separation payments totaling \$63,030 (21 percent).

While the District's separation payments generally conformed to the terms of the CBAs and employment policies, we identified the following deviations:

- The clerk erroneously calculated a 10-month employee's separation payment, which included prorated unused leave, by using the number of leave days and months worked for a 12-month employee. As a result, this employee received a separation payment that included \$1,037 for 4.08 more leave days than the employee was entitled to. District officials told us that this employee was treated differently than other 10-month employees because she was required to work some of the vacation weeks that other 10-month employees had off. However, officials were unable to provide us with an MOA to support this change or the approval by all parties.

District officials incorrectly calculated two employees' separation payments as follows:

- The clerk included \$3,413 more in an assistant principal's separation payment than he was entitled to because his unused vacation leave balance included nine more vacation days than was allowed per the CBA. District officials were unable to provide us with documentation or an explanation for the additional leave days that were granted to this employee.
- The HR Director miscalculated a teacher's years of service when calculating the employee's separation payment. As a result, this teacher's separation payment included \$400 for an extra year of service to which she was not entitled.

These deviations and errors occurred because District officials did not develop procedures for processing separation payments in accordance with Board-adopted CBAs or employment policies. In addition, the claims auditor did not review or approve any of the separation payment calculations before payment was made. As a result, three employees

were paid \$4,850 more than they were entitled to. Documenting written policies and procedures that govern separation payments would help prevent any confusion or misunderstanding regarding the process and ensure that proper supporting documentation is maintained and calculations are reviewed and approved prior to payment.

Recommendations

The Board and District officials should:

1. Direct the District's attorney to review the identified overpayments and take whatever action is appropriate within the law to recover those funds.
2. Develop and adopt written procedures to govern separation payments to ensure calculations are formally documented, adequately supported, reviewed and approved and payments are consistent with Board-adopted terms and conditions.

District officials should:

3. Ensure that separation payments are made according to the terms of the negotiated CBAs and Board-adopted benefit policies. Changes to these terms should be agreed to by all parties to the agreement and formally documented in a MOA.
4. Ensure that adequate supporting documentation is attached to fully documented calculations.

The claims auditor should:

5. Review and approve all separation payment calculations prior to payment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Board of Education

Mark Kokanovich, *President*
Julene Gilbert, *Vice President*
Andrea Costanza
Larry Davis
Karen Hatch
Marvin Sachs
Martha Sciremammano

June 1, 2016

Mr. Edward V, Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614

Dear Mr. Grant:

The Brighton Central School District has received and reviewed the draft Report of Examination entitled Separation Payments for the period covered July 1, 2014 – March 23, 2016. On behalf of the Board of Education and administration, we appreciate the opportunity to respond to the findings and to provide our responses to the audit recommendations.

During the course of the audit, the Comptroller's Office conducted a comprehensive examination of the District's financial practices and internal controls. We are pleased that no fraud, waste or abuse was identified by this examination. Further, we appreciate the courteous and professional manner in which the auditors worked with us during the audit as well as the thoroughness of their audit procedures.

This letter includes both the District's response as well as the corrective action. The corrective action was reviewed and approved by our audit committee at its meeting on May 24, 2016.

Response to Audit Recommendations:

1. *Direct the District's attorney to review the identified overpayments and take whatever action is appropriate within the law to recover those funds.*

District Response:

The District acknowledges and agrees that clerical errors were made in two of three instances cited by the auditors. In response, the District will consult with our attorneys to exhaust collection efforts to recoup the overpayments.

In regard to the finding of the 10-month employee, the District acknowledges that the Board of Education did not formally amend the employee's terms of employment as it should have through memorandum of agreement or formal Board resolution. However, at the time of hire of this specific individual the superintendent of schools negotiated with this employee to extend vacation benefits afforded to 12-month employees working under the same terms and conditions of employment. This was offered in exchange for a reduced salary and commitment to work at least 20 days during the summer months. As a corrective action, any individual employment agreement will be formally approved by the Board of Education.

2. *Develop and adopt written procedures to govern separation payments to ensure calculations are formally documented, adequately supported, reviewed and approved and payments are consistent with Board-adopted terms and conditions.*
3. *Ensure that separation payments are made according to the terms of the negotiated CBA's and Board-adopted benefit policies. Changes to these terms should be agreed to by the parties and formally documented in an MOA.*
4. *Ensure that adequate supporting documentation is attached to fully documented calculations.*
5. *The claims auditor should review and approve all separation payment calculations prior to payment.*

District Response to Findings 2, 3, 4, 5:

The District agrees with the recommendations and has developed written procedures and an audit process for all separation payments. Attached is the approved correction action plan that we request be issued with this report.

The Brighton Central School District appreciates the hard work, thorough effort and communication with the auditors throughout the process. We have great respect for our fiduciary responsibility to safeguard taxpayer resources and will act swiftly on your recommendations to continuously improve our financial practices.

Sincerely,


Mark Kokanovich
President, Board of Education


Kevin McGowan, Ed.D.
Superintendent of Schools

Brighton Central School District
Corrective Action Plan – Non-Recurring Payroll Transactions/Separation Payments
May 2016

District: Brighton Central School District

Audit Report Title: Separation Payments

Audit Report Number: 2016M – 119

For each recommendation included in the audit report, the following is the District corrective action plan consistent of policies and procedures that will be implemented immediately upon approval of this plan by the Board of Education Audit Committee.

Audit Recommendations:

1. Direct the District's attorney to review the identified overpayments and take whatever action is appropriate within the law to recover those funds.
2. Develop and adopt written procedures to govern separation payments to ensure calculations are formally documented, adequately supported, reviewed and approved and payments are consistent with Board-adopted terms and conditions.
3. Ensure that separation payments are made according to the terms of the negotiated CBA's and Board-adopted benefit policies. Changes to these terms should be agreed to by the parties and formally documented in an MOA.
4. Ensure that adequate supporting documentation is attached to fully documented calculations.
5. The claims auditor should review and approve all separation payment calculations prior to payment.

Correction Action Procedures

A. Payroll Processing of Non-Recurring Compensable Items

Upon presentation of non-recurring compensable items, the following documentation must be compiled and approved by the Director of Human Resources:

Employee Action Form with reference to collective bargaining agreement or Board approved terms and conditions discretely presented.

Evidence of authorization of appointment to duty/activity that allows payment of non-recurring compensable item, if applicable.

Authorization of Director of Human Resources and Assistant Superintendent for Administration shall be provided to Payroll prior to processing.

B. Payment Authorization and Audit of Vacation Accrual

For collective bargaining agreements that provide cash value for accrued vacation entitlements at separation, the following process shall be followed:

The payroll specialist will complete and sign the Vacation Payout Calculation Form for the respective collective bargaining unit. The payroll specialist will provide three years of accrual transaction history for the Director of Human Resources to audit and ensure that accruals were processed in accordance with the Board-approved collective bargaining agreement.

Upon approval of the Director of Human Resources, a voucher packet with supporting documentation will be submitted to the Assistant Superintendent for Administration for audit and approval.

C. Payment Authorization and Audit for Separation Payments Related to Settlements and Retirement Incentives

Upon notification of separation of an employee, the Director of Human Resources will complete a Separation Payout Calculation Form that verifies years of services and unused entitlements that have a cash value (other than vacation accruals) as defined in the respective collective bargaining agreement, or employment contract. Appropriate supporting documentation shall be attached to the form. The form shall be reviewed and initialed by the District Treasurer who will verify dates and accrual balances in the payroll system. The Assistant Superintendent for Administration will audit and authorize the form prior to payment processing.

D. Review and Audit of Benefit Profiles

Employee benefit profiles are set up in the financial management system upon hire. The Director of Human Resources, on the personnel action form, shall document which benefit profile is applicable to new hires based on the Board-approved collective bargaining agreement or individual employment agreement. This profile is set up by the payroll specialist (for paid time off accruals) and the benefits specialist (for health and dental contributions). A second party shall review the profile created by either the payroll specialist or benefits specialist to ensure that all benefits set up agree to Board-approved contractual benefits. Any discrepancies from benefits specifically enumerated in the District's collective bargaining agreements or Board-approved individual employment agreements must have evidence of Board authorization.

Person Responsible and Implementation Date

The Assistant Superintendent for Administration shall be responsible for implementation of this corrective action plan. Target implementation date is May 25, 2016.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's calculation of separation payments for the period July 1, 2014 through March 23, 2016. 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 District's procedures for processing and approving separation payments.
- We reviewed the CBA's, Board-adopted general policies for salary and conditions of employment and individual employment contracts to identify terms authorizing separation payments.
- We analyzed District provided data directly from the computerized financial software using computer assisted techniques.
- We reviewed Board minutes, made inquiries of District officials and reviewed the results of our analysis of the District's data to identify all separation payments made during our scope period.
- We reviewed the terms of separation for all employees who left District employment to determine if they were eligible to receive a separation payment.
- We examined the supporting records for all 39 separation payments made during our scope period to determine if the payments were adequately supported and calculated correctly in accordance with the Board-approved agreements and policies.

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.

APPENDIX C

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