



Dalton-Nunda Central School District Separation Payments

Report of Examination

Period Covered:

July 1, 2012 – May 28, 2015

2015M-142



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2015

Dear 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 Dalton-Nunda 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 Dalton-Nunda Central School District (District)¹ is located in the Towns of Nunda, Portage, West Sparta and Mount Morris in Livingston County, the Towns of Granger and Grove in Allegany County and the Town of Genesee Falls in Wyoming County. The Board of Education (Board), composed of seven elected members, governs the District. 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 Board-appointed Business Administrator supervises all functions within the Business Office, including overseeing the District Treasurer (Treasurer) and the payroll clerk.

During our audit period, the District had significant administrative turnover. The former Superintendent retired on November 30, 2014 and an Interim Superintendent started in December 2014. There were two Business Administrators and an Interim Business Administrator prior to the current Interim Business Administrator² hired in January 2015.

There are two school buildings in operation within the District, with 726 students and 168 employees. The District's budgeted general fund appropriations for the 2014–15 fiscal year totaled \$19.3 million, funded primarily with State aid and real property taxes.

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 to former District employees paid during the period July 1, 2012 through May 28, 2015.

¹ Commonly referred to as the Keshequa Central School District

² Former Business Administrator "A" retired on January 19, 2013, the former Interim Business Administrator's employment ended on July 31, 2013, and the former Business Administrator "B" resigned on December 7, 2014. The current Interim Business Administrator started in January 2015. After the end of fieldwork, the Interim Business Administrator left June 30, 2015 and the District hired a Business Administrator, who is shared with the Letchworth Central School District.

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.

**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 have taken, or plan to take, 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 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 service. These payments are an employment benefit generally granted in negotiated collective bargaining agreements (CBAs) or individual employment contracts and can represent significant expenditures for a district. As such, district officials must be sure 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. The Board must approve any separation terms that differ from those in the employment contracts prior to payments being made based on any modified terms.

The District has nine CBAs and three individual employment contracts that stipulate the terms and benefits for its employees. All of these contracts include provisions for eligible employees to receive a payment upon separation from the District. After the Board approves a separation, the payroll clerk reviews the applicable employment contract to determine what separation payments the employee may be entitled to. Depending on the type of payment, the payroll clerk and/or Treasurer will calculate the separation payment and provide the calculation with supporting documentation to the Business Administrator³ for review and approval. District officials have not developed written policies or procedures to formalize this process.

The District had 39 employees who retired, resigned or otherwise separated from the District during our audit period. We reviewed the terms of separation for each employee to determine those eligible for a separation payment and if the payments were properly calculated per Board-approved contract terms. We found 18 of the 39 employees were eligible for separation payments totaling \$400,311. While these payments generally conformed to the terms of the written agreements, we did find the District paid an employee \$15,895 that was not consistent with the written agreement, improperly paid Business Administrator B a separation payment totaling \$1,777 and underpaid one employee \$2,323. The result of these transactions was a net overpayment of \$15,349.

When the District's cafeteria manager function was transferred to the Board of Cooperative Educational Services (BOCES), Civil Service Law allowed for BOCES to accept the transfer of the

³ The Superintendent reviews and approves these calculations when the Business Administrator cannot.

cafeteria manager's accrued vacation and sick leave, an option which BOCES declined. Because the leave credits were not transferred, the cafeteria manager was eligible for a separation payment under the terms of the CBA. The CBA allows for an individual with the service time of the cafeteria manager to receive payment for up to 50 days of accumulated sick leave. We calculated this amount to be \$9,199. However, the District paid the cafeteria manager \$25,093. This overpayment of \$15,895 was the result of the cafeteria manager receiving payment for an extra 52 days of accumulated sick leave and 32 hours of personal leave.

The former Interim Business Administrator instructed the payroll clerk to pay the cafeteria manager for all accrued sick and personal leave, instead of limiting payment to the maximum number of sick days allowed per the CBA. Although the current Interim Business Administrator told us that all leave was paid because that was common practice when a position was transferred to BOCES, District officials did not document this arrangement in writing or obtain Board approval. The Board only adopted a resolution that approved the transfer of the cafeteria manager position to BOCES per Civil Service Law. The Board President confirmed that the Board was unaware of this alternate payment arrangement.

The payroll clerk also processed a \$1,777 separation payment for all unused vacation leave to former Business Administrator B, who was ineligible for payment based on the terms of her applicable CBA. The CBA stipulated that an employee must have a minimum of five years of service to receive a payout for a limited amount of unused sick and vacation leave. Although this administrator had only one year of service, the payroll clerk made this payment based on a memo from the former Superintendent that waived the CBA terms and provided for the payment of all unused vacation days.⁴ The Board President told us that the Board was never made aware of this alternative separation arrangement until our inquiry and did not approve the payment.

We also found that the payroll clerk erroneously calculated a former bus driver's daily rate by using the number of bus runs instead of the number of hours per day as required by the CBA. As a result, the bus driver was underpaid \$2,323.

Documenting, in writing, policies and procedures that govern separation payments would help prevent any confusion or misunderstandings regarding the process. Allowing alternative arrangements without Board knowledge and consent usurps the Board's authority, allows for the appearance of favoritism and compromises transparency and accountability. As a result of the weaknesses in the processing of

⁴ We also found that former Business Administrator B approved her own claim.

separation payments, District officials made a net overpayment of \$15,349 in separation payments that were not in conformance with written agreements.

Recommendations

The Board should:

1. Review separation overpayments identified in this report and seek recovery as appropriate.
2. Ensure that the employee who was underpaid is compensated properly.

The Superintendent should:

3. Develop procedures to govern separation payments.

District officials and staff should:

4. Ensure that separation payments are made according to the terms of the negotiated employment contracts. Any changes to these terms should be Board-approved.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Keshequa Central Schools

Thomas A. Cox, Interim Superintendent of Schools

P.O. Box 517, 13 Mill Street

Nunda, New York 14517

Phone: (585) 468-2900 Fax: (585) 468-3814

August 28, 2015

This is the written response to the Audit of the Dalton-Nunda Central School District examination of separation agreements conducted by the Office of the State Comptroller. This audit pertained to the calculation of separation agreements implemented by the district during the period July 1, 2012 through May 28, 2015. The district has reviewed the report with the examiners and finds that the report is accurate. The district is pleased that the examiners found that separation agreements were properly calculated and articulated.

However, there were three instances where payments did not adhere to existing contractual language and were improperly implemented.

In one instance the district paid an employee \$15,895 that was not consistent with the written agreement of the Keshequa Middle Managers Collective Bargaining Agreement. The intent that was used in this instance to move an employee from being a Keshequa CSD employee to being an employee of the Genesee Valley Educational Partnership was consistent with a practice established by GVEP. What the district failed to do was properly communicate with the union and gain their support for deviating from the contract and ultimately making payment to the employee without proper Board of Education Action. After speaking with a former interim Business Administrator and the Board President and Vice-President the procedure for making this transfer was discussed but specific details were not shared. The district affirms that this was not intended to circumvent good practice while conceding that the district was remiss in diligently adhering to an established policy. Therefore, the district will put into place a plan to gain restitution of the \$15,895. As the employee involved was in no way complicit in attempting to gain payment that was not due to her and repayment will be a hardship, we will work to gain repayment over a period of 5 years pending appropriate board of education action.

In the instance of a former Business Administrator being improperly paid, the district has notified the former employee and full restitution has been made. It is important to note that an agreement was made with the previous superintendent to make this payment. The district concedes that proper process was not followed. The board of education will accept this payment through appropriate board of education action.

In the instance of an underpayment of an employee, the district has reviewed its records and is in agreement with the OSC. That underpayment has been confirmed and, pending board of education action will be corrected and the employee will receive \$2,323.

In the future, the district will ensure that proper procedures and adherence to collective bargaining agreements will be in place. While the district continues to undergo significant leadership transitions the board of education audit committee will be charged with closely monitoring these types of actions.

Be it resolved that the Board of Education, upon recommendation of the Superintendent of Schools accepts the report of the Office of the State Comptroller and approves the corrective action plan and further authorizes the Superintendent to implement said corrective action plan.

Sincerely,

Todd Galton
President, Board of Education

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, 2012 through May 28, 2015. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed District officials and staff to gain an understanding of the District's processing and approval of separation payments and controls over the computerized financial software.
- We reviewed the negotiated collective bargaining agreements and individual employment contracts to identify terms authorizing separation payments.
- The District provided data directly from the computerized financial software and we analyzed it electronically using computer-assisted techniques.
- We reviewed Board minutes, inquired with District officials and reviewed the results of the analysis of the electronic data to identify all separation payments made during our scope period.
- We reviewed all 39 employees who left District service to determine if they were eligible for a separation payment.
- We examined the supporting records of the 19 separation payments made during our scope period to determine if the payments were supported and correctly calculated according to 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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