



Oyster Bay- East Norwich Central School District Employee Leave Accruals

Report of Examination

Period Covered:

July 1, 2011 — March 31, 2013

2013M-253



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their district's resources 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 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 costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Oyster Bay-East Norwich Central School District, entitled Employee 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 Oyster Bay-East Norwich Central School District (District) is located in the Town of Oyster Bay in Nassau County. The District is governed by a Board of Education (Board) which comprises 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 the Assistant Superintendent for Business and other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District operates three schools with approximately 1,670 students and 376 full- and part-time employees. The District's budgeted appropriations for the 2013-14 fiscal year were approximately \$53.5 million, which were funded primarily from real property tax, State aid and, grants.

Objective

The objective of our audit was to determine if the District has properly accounted for employee leave accruals. Our audit addressed the following related question:

- Has the District properly accounted for employee leave accruals?

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: cash management, cash receipts and disbursements, capital projects, claims processing, asset management, 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 employee leave accrual area and, therefore, we examined internal controls over leave accruals for the period July 1, 2011, to March 31, 2013.

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 recommendation 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 recommendation and 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.

Employee Leave Accruals

Leave accruals represent time off earned by employees. The Board should adopt policies and procedures to ensure that employee leave benefits are properly provided, used, and accounted for. Written policies, individual employment contracts, and/or collective bargaining agreements should clearly stipulate each employee's entitlement to leave benefits. A verification process should ensure that earned and used leave time is properly tracked for each employee and the record of leave allowances is accurate, so employees only receive the benefits that they are entitled to. Periodic reviews of leave accrual records and balances provide an additional control to help ensure that employees receive and use the correct leave to which they are entitled.

At the beginning of each fiscal year, the account clerk initiates an automated process to carry over each employee's accrued leave balances based on the information in the District's financial software. During this process, accrued leave balances are sometimes misclassified,¹ requiring the account clerk to manually adjust the records. Employees are sent a letter which includes their accrued leave balances for review.

As a result of this weakness, we selected 10 of the 236² District employees with the highest accumulated unused leave balances, to determine if the employees' unused accrued leave balances were carried forward and appropriately reclassified in accordance with the applicable collective bargaining agreement. Except for minor discrepancies, the District properly accounted for employee leave accruals and made payments in accordance with collective bargaining agreements and employment contracts.

After we communicated our concerns to the District, the Assistant Business Official also tested a sample of employee leave accruals and found no exceptions for those tested. Although the District has not done so in the past, the Assistant Business Official indicated that similar tests will be conducted quarterly to verify the accuracy of the records.

Recommendation

1. District officials should continue to monitor and review the accrued leave balances and correct any discrepancies found.

¹ The computer software automatically updates leave accrual balances. However, due to provisions in the collective bargaining agreements that limit accruals earned and allow for the reclassification of certain accruals, manual adjustments may be necessary. For example, the accrual from one classification (e.g., Personal Leave) must be manually adjusted to another classification (e.g., Sick Leave).

² All District employees who were entitled to accumulate leave accruals

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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October 17, 2013

Office of State Comptroller
Ira McCracken, Chief Examiner
NYS Office Bldg, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

RE: Audit Report 2013M-253

Dear Mr. McCracken:

The Oyster Bay-East Norwich Central School District has received your report entitled, "Employee Leave Accruals" for the period 7/1/2011 through March 31, 2013. Please note this letter will serve as the District's response to the audit report and corrective action plan (CAP).

The District is pleased with your department's determination that adequate controls are in place in the financial areas reviewed. As mentioned in the report, the audit included an assessment of the District's internal controls for cash management, cash receipts and disbursements, capital projects, claims processing, asset management, purchasing, payroll and personal services, and information technology. Based on this assessment, one segment of the operation was selected and examined further; see below for details.

Audit Report of Examination:

Employee Leave Accruals 7/1/2011—3/31/2013

Audit Objective:

Does the District properly account for employee leave accruals?

Audit Findings:

The District has properly accounted for employee leave accruals.

Audit Recommendation:

District officials should continue to monitor and review the accrued leave balances and correct any discrepancies found.

Implementation Plan:

The Business Office will continue to monitor accrued leave balances to ensure they are classified correctly, appropriately accounted for, and adhere to collective bargaining agreements.

Implementation Date:

N/A – District will continue its current procedures.

Person Responsible for Implementation:

N/A – Christopher A. Van Cott, Assistant Superintendent for Finance and Operations, will oversee the District's existing practices.

The District would like to thank the Office of the State Comptroller for reviewing the District's operations and governance. The state examiners onsite demonstrated courtesy, professionalism and respect which was greatly appreciated.

Sincerely,

Laura Seinfeld, Ed.D
Superintendent of Schools

cc: Board of Education Members
Christopher A. Van Cott, Assistant Superintendent of Finance and Operations
Margaret Nolan, District Clerk

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: cash management, cash receipts and disbursements, capital project, claims processing, asset management, purchasing, payroll and personal 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 and/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 the area most at risk. We selected leave accruals for further audit testing.

During the audit, we examined the records for the period July 1, 2011, to March 31, 2013. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following steps:

- We judgmentally selected a sample of 10 employees with the highest accrued leave balances.
- We reviewed the teachers' and custodians' collective bargaining agreements and the Superintendent's employment contract.
- We interviewed key personnel to obtain an understanding of the accrued leave process.
- We interviewed key personnel to determine the process for the authorization of payments for unused leave.
- We examined the District's records of the 10 selected employees (statement of absence, employee time summary listing, and attendance detail report) to verify the accuracy of the records and determine if they were in accordance with the collective bargaining agreements and the Superintendent's employment contract.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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Andrew A. SanFilippo, Executive Deputy Comptroller
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