



Manhasset Union Free School District Separation Payments

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-150



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
Retirement Incentives	4
Vacation Payouts	5
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B OSC Comments on the District's Response	12
APPENDIX C Audit Methodology and Standards	13
APPENDIX D How to Obtain Additional Copies of the Report	14
APPENDIX E Local Regional Office Listing	15

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 Manhasset Union Free 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 Manhasset Union Free School District (District) is located in the Town of North Hempstead in Nassau County. The District is governed by the Board of Education (Board), which is composed of five 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 District operates three schools with approximately 3,340 students and 750 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$90 million, which were funded primarily with real property taxes and State aid.

Objective

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

- Did the Board ensure that separation payments to former employees were made in accordance with employment contracts?

Scope and Methodology

We examined the calculation and processing of separation payments for the period July 1, 2014 through February 29, 2016. We extended our scope back to June 26, 2014 to include payments for a retirement incentive.

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 C 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 that they have taken corrective action. Appendix B includes our comments on issues raised in the District's response letter.

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 can provide separation payments to employees as retirement incentives when employees retire or otherwise leave district employment. School districts can also provide separation payments to employees for all or a portion of their earned but unused leave time. These payments are employment benefits generally granted in collective bargaining agreements (CBAs), individual employment contracts or Board-approved agreements. Because separation payments can be significant expenditures, internal controls should be established to ensure employees are paid only the amounts to which they are entitled.

The human resources and payroll departments are responsible for calculating and processing separation payments for eligible employees based on Board-approved agreements. During our audit period, approximately 120 employees retired or left the District's employment. Of this amount, 20 employees received separation payments totaling approximately \$272,200.

The Board should improve its internal controls over separation payments to ensure that payments are accurately calculated. The Board did not ensure that District officials developed written procedures for processing or approving separation payments, and there was no adequate independent review of the calculations to ensure they were accurate. As a result, the District overpaid seven employees for retirement incentives by total of \$35,000 and underpaid four employees for unused vacation time by a total of \$1,359.

Retirement Incentives

Districts can offer retirement incentives to eligible employees whose titles are covered by a specific CBA. The terms of a CBA can be amended or clarified by a memorandum of agreement (MOA). During 2013-14, the District offered retirement incentives to eligible employees who retired effective July 1, 2014, as prescribed in MOAs between the District and its labor units. The MOA for educational staff stipulated that if at least five members submitted a letter of resignation, the District would make a one-time payment of \$20,000 to each individual's 403(b) retirement account. If at least 10 members submitted a letter, the District would make a one-time payment of \$25,000 to each individual's account. The MOA for support staff stipulated that if at least five members submitted a letter of resignation, the District would make a one-time payment of \$10,000 to each individual's account.

After the Board approved the resignation letters, the human resources department prepared a list of eligible employees who opted for the incentive. The list was sent to the payroll clerk who compiled a worksheet with the payments based on the MOAs. The worksheet was sent to the District Treasurer who initiated a wire transfer.¹ The Deputy Superintendent for Business and Finance (Deputy Superintendent) reviewed and approved the transfer. Then the claims auditor reviewed the wire transfer after it occurred.

Seven educational staff and eight support personnel opted for retirement incentives and received payments totaling \$255,000. All eight support personnel were paid appropriately. However, all seven educational staff were overpaid by \$5,000 each, resulting in a total overpayment of \$35,000.

The overpayments occurred because there were no written procedures for processing or approving retirement incentive payments. In addition, no one independent of processing the retirement incentive payments properly reviewed the calculations to ensure they were accurate and in accordance with the MOAs. District officials told us that the MOAs were not included in the documentation submitted to the Deputy Superintendent or to the District Treasurer during the initiation, review and approval of the wire transfer. By not establishing written procedures or having an adequate review process, there is an increased risk of inaccurate payments continuing to occur without detection.

Vacation Payouts

According to the CBA for support personnel, full-time 12-month employees hired before July 1, 2006 are entitled to payment for unused vacation time upon separation (vacation payout). Full-time 12-month confidential employees, who are not covered by a CBA or an employee contract, receive the same leave allocations and vacation payouts as stipulated in the CBA for support personnel.

When an employee submits a letter of resignation, the human resources department determines:

- If the employee is eligible for a vacation payout based on the CBA;
- The vacation leave balance from the attendance records;
- The employee's daily pay rate by requesting it from the payroll clerk; and

¹ The District made a single wire transfer to an employee benefits service company that distributed the money to each individual's account.

- The vacation payout based on the vacation leave balance and daily pay rate.

Once the vacation payout is calculated, the Board approves the resignation and payout amount. After Board approval, the calculation is sent to the payroll clerk for processing and payment.

Six former employees were eligible for vacation buyouts at the time of separation. The District made payments to five of the six eligible former employees, totaling \$17,222. We recalculated the vacation payouts and found that the District underpaid four former employees by \$1,359, including one former employee who was not paid at all.

The underpayments occurred because there were no written procedures for processing or approving separation payments. In addition, no one independent of processing the vacation payouts properly reviewed the calculations to ensure they were accurate and in accordance with the CBA. By not establishing written procedures or having an adequate review process, there is an increased risk that the District will make inaccurate payments.

Recommendations

The Board should:

1. Adopt written policies and procedures for processing and approving retirement incentives and vacation payouts.
2. Direct District counsel to review retirement incentive overpayments identified in this report and seek recovery as appropriate.

District officials should:

3. Ensure MOAs are included in the documentation submitted to the Deputy Superintendent and the District Treasurer during the initiation, review and approval of retirement incentive payments.
4. Ensure that someone independent of processing retirement incentive payments and vacation payouts reviews the payment calculations to ensure they are accurate and in accordance with MOAs and CBAs.
5. Review underpayments for vacation payouts identified in this report and take necessary corrective action.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Manhasset Public Schools

Charlie Cardillo
Superintendent of Schools

June 24, 2016

Ms. Tenneh Blamah
Chief Examiner
Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, New York 12553-4725

Via Postal and Electronic Mail

Dear Ms. Blamah:

We are writing in response to the draft report of the Office of the State Comptroller (OSC) received June 1, 2016. This draft report was issued as a result of the initiation of an OSC audit of the Manhasset School District, as outlined in your letter dated January 11, 2016, wherein you stated:

"The audit will focus on an evaluation of internal controls. Our audit will cover the last completed fiscal year and up to the start of our audit."

Your letter continues:

"At the conclusion of our audit, we will report on the audit's results and provide recommendations to help improve your district's operations."

Based on your letter, we anticipated a report from the OSC entitled "Evaluation of Internal Controls" which would detail the results of the full scope of your evaluation of the district's internal controls as conducted by your staff through an eight week period of on-site field work covering a broad array of the district's operational processes, as further detailed below.

1. Limited Commentary in OSC's Final Report:

We are surprised and concerned that your report neither covers, nor even mentions, the full scope of the internal controls evaluation (referred to by your staff as a "risk assessment audit") performed by the OSC staff. A risk assessment audit is a valuable tool to identify areas of potential internal control weakness which require further evaluation and audit testing. Rather than include commentary on the full breath of the evaluative field work, the OSC report is limited to the sole process where the OSC evaluation and risk assessment identified a single area, separation payments, for further audit testing and, ultimately, the need to improve internal controls. The absence of any other area of audit expansion indicates to us that your assessment of internal controls over all of the other daily processes conducted at Manhasset School District revealed that internal controls are strong and functioning as intended. By omitting even a brief comment regarding the risk assessment and evaluation that was performed by the OSC, by remaining silent as

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to the full scope of your risk assessment and evaluation, and by limiting your report to a sole process, we believe the reader will misinterpret this to mean that the separation payment process was the only process assessed and evaluated by the OSC.

We were informed through discussion with the OSC Newburgh Office that this is typical of OSC reporting when a comprehensive risk assessment is performed – *i.e.*, you report only on identified areas of weakness, and remain silent on identified areas of strength. We believe that OSC’s approach in reporting in this manner negates the impact of the risk assessment audit and does not incentivize auditees in embracing the comprehensive risk assessment process as a both a positive experience and an opportunity for growth. Instead of engaging in a growth model, whereby the OSC could share best practices that come to light through the overwhelmingly positive results of the risk assessment performed at the Manhasset School District by the OSC, the OSC appears to select a punitive approach by identifying and expounding only on this one area cited for improvement identified during the risk assessment process.

See
Note 1
Page 12

See
Note 2
Page 12

We are puzzled by this lack of transparency and we respectfully urge you to reconsider this reporting approach.

2. Scope of Risk Assessment and Evaluation Performed:

We would like to note for the record that the internal controls evaluation/risk assessment audit conducted by OSC during its two months of field work was expansive and included, but was not limited to, the following areas:

See
Notes 1
and 2
Page 12

- Bank reconciliations
- Budget process
- Cash disbursements process
- Cash receipts process
- Claims audit process and reports
- External audit reports
- Fixed assets
- Food Services
- Fund Balance
- Human Resources processes (employee files, insurance, fingerprint clearance, separation payments, etc.)
- Information Technology controls
- Interim financial reports
- Internal audit reports
- Long-term planning
- Online banking access
- Payroll processes
- Policies
- Purchasing processes (competitive bidding, requests for proposal, etc.)
- Reserves/Reserve Plan
- Special Education vendors and RFP process
- Transportation (competitive bidding and efficiency of operations)
- Wire transfers

3. Finding on Retirement Incentives:

A finding was identified for a one-time retirement incentive payment made by the district on June 26, 2014. We agree with the finding that seven teachers were overpaid on June 26, 2014 by \$5,000 each as a result of clerical error. While the payment was subject to independent review prior to its release, the clerical error was not detected through this review process. Importantly, the district promptly contacted those individuals impacted by this overpayment when it was identified and explained the clerical error that had occurred. Most significantly, the district has fully recovered all overpayments without legal expense or further issue.

See
Note 3
Page 12

As a technical matter, we note the date of this transaction falls outside of the original scope of your audit. We now understand that the OSC's final report will have revised the originally stated scope in order to incorporate the June 26, 2014 payment.

4. Finding on Vacation Payouts:

A finding is identified for four former employees who were underpaid for vacation payouts by a total of \$1,359. We agree that two former employees were underpaid by \$17.20 and by \$538.60, respectively, as a result of clerical error. The payments were subject to independent review prior to their release, however, the clerical errors were not detected. The district will pay these amounts to the two former employees.

We disagree with the finding that two other employees were underpaid by \$70.88 and by \$732.35, respectively, and in particular disagree with the implication of the finding that the latter amount was as a result of "one former employee who was not paid at all".

a. \$70.88 - The district's long-standing practice is to only pay for either ½ of a vacation day or a full vacation day, and not for any other increments. The finding of a \$70.88 underpayment is based on payment for 1/3 of a vacation day, which is not in accordance with district practice. The district has paid the correct amount and no further sums are owing or will be paid to this former employee.

See
Note 4
Page 12

b. \$732.35 - The district's long-standing practice is to release vacation payments only when all district protocols have been met including, but not limited to, submission of retirement papers, Medicare card, keys and access badge. The finding of a \$732.35 underpayment and the characterization of the finding as "one former employee who was not paid at all" is neither correct nor in accordance with district practice. This former employee was notified of these requirements both in writing and well in advance of his retirement, but nevertheless had not complied as of the time of his retirement. Based on this non-compliance, the district made a pro-active decision not to remit vacation pay, and did not omit such payment as the result of an error, as implied in the OSC's report.

See
Note 5
Page 12

The last of the required documents was recently submitted and the district will pay \$683.52 to this employee at this time. The \$48.83 difference in the amount calculated by the OSC and by the district is for ¼ of a vacation day, and, as noted above, the district's long-standing practice is to not pay for less than ½ of a vacation day. The district will pay the correct amount of \$683.52 in accordance with its practice, and no further sums will be owing or be paid to this former employee.

5. Recommendations

We agree with the OSC's recommendations, except for the recommendation to "Direct District Counsel to review retirement incentive overpayments identified in this report and seek recovery as appropriate". As noted above, District Administration initiated and fully recovered the seven overpayments through its own efforts.

We would like to thank the Office of the State Comptroller, and in particular, your staff members [REDACTED], whose professionalism was exemplary.

Very truly yours,

[REDACTED]
Charles Cardillo

Cc: Manhasset Board of Education
Rosemary Johnson, Deputy Superintendent for Business and Finance

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The audit was conducted in accordance with generally accepted government auditing standards. An initial risk assessment of the District's operations was performed to help us narrow our audit scope. We did not audit the other operational areas indicated in the District's response. Therefore, we did not determine that "internal controls are strong and functioning as intended" in other District operations. Our audit process was discussed with District officials during the audit fieldwork.

Note 2

Our risk assessment process is not an audit because it does not include the level of testing included in an audit. This process is used to help us obtain an understanding of the entity's operations and identify potential areas with higher audit risk that may be included in the audit. Since we have limited staff resources, not all risk areas are included in every audit. Therefore, it is not correct to assume that areas not selected for audit are functioning properly or are free of risk.

Note 3

The District discovered the overpayments when we brought them to District officials' attention. The final report includes the revised scope period.

Note 4

During our exit discussion, District officials told us that unused vacation is paid out in either half or full day increments. However, they did not provide written documentation, for example, a Board-adopted policy, to support this practice.

Note 5

During our exit discussion, District officials told us that it was a "management decision" not to pay this employee for unused vacation because of protocols that have not been met. However, they did not provide written documentation, for example, a Board-adopted policy, to support this decision.

APPENDIX C

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 District's processing and approval of separation payments.
- We reviewed CBAs, individual employment contracts and MOAs to identify terms authorizing separation payments.
- We reviewed Board agendas and minutes and inquired with District officials to identify separation payments.
- We reviewed documentation related to all employees who left District employment to determine if they were eligible for separation payments.
- We examined all supporting records for separation payments and recalculated the payments to determine whether they were supported and correctly calculated according to MOAs and CBAs.
- We traced attendance records back to leave request and approval forms for all employees who received a vacation payout.

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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