



City of Mechanicville

Separation Payments

2025M-59 | April 2026

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Audit Results

City of Mechanicville



Audit Objective

Did City of Mechanicville (City) officials ensure that employees' separation payments were accurate?

Audit Period

January 1, 2022 – September 30, 2024

Understanding the Audit Area

When an employee leaves city employment (e.g., by resignation or retirement), the employee may be entitled to receive separation payments for compensation of their earned, but unused, leave benefits (such as unused sick leave or vacation time) while employed with the municipality. A city may also establish "retirement incentives" to officers or employees that meet specified requirements (e.g., a lump sum payment based on years of service). City officials should ensure that employee separation payments are authorized and accurate before making payments to maintain financial integrity and limit financial losses for the City.

From January 1, 2022 through September 30, 2024, the City employed 98 people and paid them \$6.2 million in gross wages. During this period, 17 full-time employees left City employment (separated from City service).

Audit Summary

During the audit period, City officials did not ensure the accuracy of separation payments. As a result, three employees received questionable or unsupported payments totaling \$15,766 due to miscalculations of vacation payouts and an ineligible retirement incentive. Without formal policies and internal controls over separation payments, the City has an increased risk that officials and employees could make improper payments and misuse public funds.

Specifically, we determined that three separation payments totaling \$37,118 were inconsistent with language in the City's employee handbook or collective bargaining agreements (CBA), which may have resulted in overpayments.

City officials did not have adequate policies or written procedures in place to guide how separation payments should be calculated, reviewed and approved. Officials also did not establish a formal review process to verify that the calculations were accurate. In addition, they did not ensure that separation payments were consistent with employment agreements and paid only to those who were eligible and entitled to receive the payments.

The report includes eight recommendations that, if implemented, will improve the City's ability to accurately calculate and verify separation payments, comply with employment agreements, protect taxpayer dollars and avoid overpaying employees who leave City employment. City officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the Office of the New York State Comptroller's (OSC) authority as set forth in Article 3 of the New York State General Municipal Law (GML). Our methodology and standards are included in Appendix C.

The City Council (Council) has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of GML. 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. We encourage the Board to make the CAP available for public review in the City Clerk's office.

Separation Payments: Findings and Recommendations

City officials should establish and follow written procedures designed to ensure that the calculations for separation payments are accurate and comply with the terms and conditions of employment agreements. In addition, all proposed final payment calculations should be independently reviewed to help ensure that the payments are accurate and approved by officials before payments are made. This helps ensure that employees who leave City employment receive only the amounts to which they are entitled.

More details on the criteria used in this report, as well as resources we make available to local officials that can help officials improve operations (Figure 1), are included in Appendix A.

Finding 1 – City officials provided questionable or unsupported payments and benefits totaling \$15,766 to former employees.

We reviewed separation payments totaling \$40,866 made to four former employees and determined that one payment totaling \$3,748 made to one former employee was correctly calculated and paid. However, we determined that three payments totaling \$37,118 were inconsistent with language in the City’s employee handbook or CBA, which may have resulted in overpayments of \$15,766. These payments included questionable payouts for unused vacation time (\$8,266) and a retirement incentive (\$7,500) paid outside the approved timeframe as indicated in the CBA. Specifically, we identified the following:

- A former employee, who retired on March 23, 2023, received a \$7,500 retirement incentive even though the employee missed the eligibility deadline for the “retirement incentive” (as indicated in the CBA) by more than six weeks. Although the Council had informal discussions regarding granting an exception to the eligibility deadline for this individual, these discussions were never officially documented through a resolution or other written approval.
- A former Deputy Commissioner, who retired after 25 years of service, was paid \$6,342 for 30 vacation days (six weeks) despite the employee having only three vacation days at the time of her retirement. According to the employee handbook, full-time employees earn vacation time according to a set schedule after completing each year of service. For instance, the employee handbook indicates that, after completing 21 or more years of service, an employee would be entitled to 30 days (six weeks) of vacation time. This suggests that employees earn vacation leave on their anniversary date, based on the number of years of service to the City. The former Deputy Commissioner received her 30 days (six weeks) of vacation on January 1, 2023, which was her anniversary date with the City. She then left City employment on December 31, 2023, one day before her next anniversary date. Based on our review of the former Deputy Commissioner’s leave records, as of December 31, 2023, she had an unused vacation balance of three days when she left City employment. Therefore, according to the employee handbook, the former Deputy Commissioner was eligible for a cash payment totaling \$634 for her unused vacation accrual. However, officials gave us a memorandum signed by the City’s previous Commissioner of Accounts, which was dated November 15, 2023, that stated that the former Deputy Commissioner

was to receive a vacation payout of six weeks (30 days), totaling \$6,342. The memorandum did not explain why the former Deputy Commissioner was to receive the six weeks of vacation pay. Given the language in the employee handbook, we question the appropriateness of the City compensating the former Deputy Commissioner for an additional 27 days of vacation leave totaling \$5,708. We also identified that the vacation buyout was paid by the City on November 22, 2023, which was before the new administration took office.

- Another former Deputy Commissioner, who left City employment on December 1, 2023, received \$4,934 for 27 vacation days, even though she did not have enough accrued vacation time to support the payment. Because the Deputy Commissioner had a balance of 13 days of unused vacation leave at the time she left City employment, she would have been entitled to receive a vacation leave payout of \$2,376. In addition, payroll records indicated that this employee's time sheets were not approved for several months before the employee left City employment. Regular approval of timesheets is a critical internal control to verify hours worked, confirm benefit accruals and ensure the accuracy of payroll and separation payments.

These separation payment issues occurred, in part, because City officials did not have adequate internal controls over separation payments, which resulted in questionable or unsupported payments. The City did not have written policies and procedures for processing separation payments, and officials did not ensure that someone who was independent of the payroll process reviewed and approved the calculations for separation payments. For example, separation payments made to the Deputy Commissioner of Accounts, who retired, and the Deputy Commissioner of Finance, who resigned, were processed by the Deputy Commissioner of Finance before the new administration took office in 2024.

In addition, the former Commissioner of Accounts and the former Deputy Commissioner of Finance did not verify that vacation accrual limits and retirement incentive eligibility requirements were consistent with language in the employee handbook or CBA. According to the current Commissioner and Deputy Commissioner of Finance, the payments were issued before the incoming administration took office because the outgoing officials were concerned that the incoming staff might miscalculate the amounts owed.

Because the Council did not adopt written policies and procedures for separation payments, require someone who is independent of the payroll process to review and approve calculations for separation payments and certify the payroll for accuracy, the City may have overpaid three former employees by \$15,766 for incorrectly calculated separation payments.

Recommendations

The Council should:

1. In consultation with legal counsel, review the payments identified in this report and determine the appropriate course of action, if any, for payments that are inconsistent with the CBAs, contracts or policies.

-
2. Establish written policies and procedures for calculating separation payments.
 3. Establish a formal process to document and authorize all changes in employment status, salary and wage rates.
 4. Ensure that someone who is independent of the payroll process reviews and approves the calculations for separation payments.

City officials should:

5. Ensure that separation payments are accurately calculated, supported, approved and disbursed in accordance with the terms of the CBAs or employment handbook.
6. Ensure that all employee time sheets are reviewed and approved before certifying the payroll.
7. Ensure that employees receive separation payments for only those benefits to which they are eligible upon leaving City employment.
8. Process all separation payments through the routine payroll process.

Appendix A: Profile, Criteria and Resources

Profile

The City is located in Saratoga County and has an estimated population of 5,064 residents. The City is governed by a Council, which includes the Mayor, Commissioner of Finance, Commissioner of Accounts, Commissioner of Public Works and Commissioner of Public Safety. The Council is the City's legislative and policy-making body, and the Mayor serves as the City's chief executive officer and is responsible for overseeing all City departments. The remaining four Commissioners administer the finance, accounts, public works and public safety departments.

The City has two collective bargaining agreements and one employee handbook that stipulate terms and benefits including separation and retirement eligibility and payout.

During the audit period, the City operated under two administrations. The outgoing administration served through December 31, 2023. The Commissioner of Finance resigned in March 2023. The Commissioner of Accounts served as the interim official overseeing the Deputy Commissioner of Finance through December 31, 2023. Following the November 2023 election, a new Commissioner of Finance assumed office on December 1, 2023. The former Deputy Commissioner of Finance resigned effective December 1, 2023.

City department heads determine whether employees are eligible to receive separation payments and calculate the payments. The City's Finance Department processes payroll, which includes issuing separation payments and health insurance buyouts.

Criteria – Separation Payments

In addition to establishing wages and salaries, cities generally have the authority to make cash payments of the monetary value for all, or a portion of, officers' or employees' earned but unused leave accruals when they leave city employment. The authority to make these payments may be pursuant to a CBA, individual employment agreement or a preexisting local enactment (such as an established policy). However, without a preexisting local enactment or agreement, courts have found that cities should not make these payments.

A city council should ensure that the terms and conditions of employment agreements are clearly communicated to those who are responsible for payroll processing. This helps prevent confusion regarding employee benefits, rights and responsibilities, and reduces the risk of costly errors, grievances, or legal disputes. Clear communication helps ensure that payroll staff understand and correctly apply agreed-upon employment terms.

Additionally, a city may establish, typically pursuant to a CBA, "retirement incentives" to officers or employees that meet certain specified requirements (e.g., a lump-sum payment based on years of employment). During the audit period, the City had two CBAs and an employee handbook that stipulated terms and conditions for officials to follow when approving separation payments to

employees who left City employment. Pursuant to language in the CBAs, employees who notified the City, in writing, of their intent to retire, were authorized to receive a cash incentive (retirement incentive) if they left City employment during their first year of retirement eligibility. The City's Police Benevolent Association (PBA) CBA permitted members who elected to retire within six months after their 20th service anniversary date to receive a retirement incentive.

City officials should establish procedures to ensure that officers or employees who receive these payments are paid the amounts to which they are entitled to and that each payment is accurate, adequately supported and authorized. Adequate supporting documentation, such as accrual balance reports and employee contracts, should be attached to payment calculations. The amounts should be independently reviewed and approved before payments are made to employees to help ensure the payments are accurately calculated.

The city council should separate payroll authorizations from the actual payroll processing. Responsibilities such as hiring and dismissing employees and setting pay rates should be handled by a different department than the department that prepares and processes payroll records and checks. With computerized systems, the personnel department should enter payroll changes and ensure that the person who is responsible for processing the payroll is not the same one who makes changes in the records. This segregation of duties helps reduce the risk of fraudulent activities, such as creating ghost employees, inflating salaries or recording unauthorized overtime.

The city council should establish a formal process to document and authorize all changes in employment status, salary and wage rates. This includes using payroll change forms to help ensure that any adjustments, such as retirements, are properly approved and documented. When changes are authorized by the city council, it creates a clear record to support employment modifications. This process reduces the risk that fraudulent or incorrect payroll changes could go undetected and helps ensure that all adjustments are legitimate and properly tracked and recorded.

The city council should require employees to document their days and hours worked and leave credits used on time sheets or timecards. Regular approval of timesheets is a critical internal control to verify hours worked, confirm benefit accruals and ensure the accuracy and legitimacy of payroll and separation payments. City department heads, who have direct contact with employees, should review and approve these records. This helps prevent situations where employees are paid for time that they are not entitled to and helps ensure that attendance records are accurate and properly approved.

City department heads also should maintain accurate records of employee leave accruals and regularly communicate leave balances to employees. With accurate records, officials can help ensure that employees are paid only for the leave time that they are entitled to and that leave records are regularly reviewed for accuracy. This helps prevent errors in leave time payments and ensures that employees are fully informed of their available leave balances.

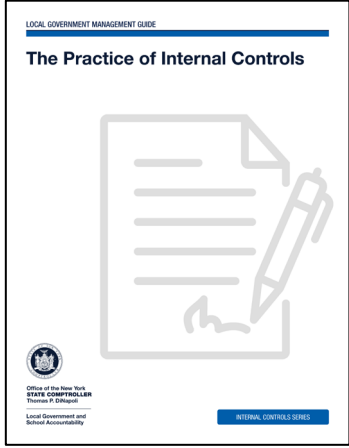
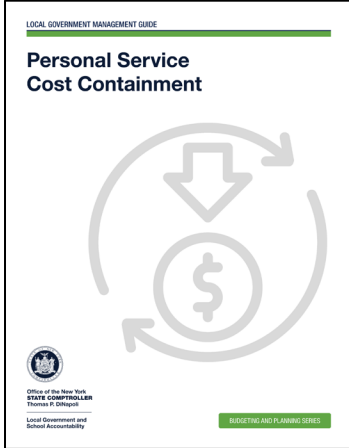
The city council should ensure that payroll registers or similar payroll records are certified (reviewed and approved) by an official department head. The certification should confirm that the work was actually performed and the recorded days and hours worked are accurate. Certifying payroll records helps officials identify any unusual or incorrect payments and provides further verification before checks are distributed, which helps reduce the risk of errors and fraud in payroll processing.

The city council should implement periodic reviews of payroll change reports by management or an internal auditor. When unusual changes are found, they should be traced back to the appropriate authorization documents, such as the city council's meeting minutes, civil service meeting minutes,¹ payroll change forms and employment agreements. This managerial oversight helps ensure that payroll changes are properly authorized and entered into the system correctly and provides an added layer of assurance that payroll processes are accurate and comply with necessary protocols.

The city council also should ensure that the terms and agreements outlined in employment agreements are clearly communicated to all employees, including details about benefits and conditions of employment. This includes clarifying entitlements such as paid leave, separation and retirement incentives and specific conditions under which these benefits are provided. By properly documenting and regularly communicating these terms, the city can help prevent errors from occurring and help ensure that employees understand their rights and responsibilities. This transparency fosters a fairness and consistency where employees receive the full benefits they are entitled to according to their employment agreements.

¹ City officials hold these meetings with New York State Civil Service representatives to administer civil service activities related to the City's housing authority, public library and City school district, during which they address topics related to State employment exams and eligible lists, hiring new employees and other personnel matters.

Additional Payroll – Separation Pay Resources

Figure 1: OSC Publications	
<p>OSC's <i>Local Government Management Guides</i> are available on our website to help officials understand and perform their responsibilities and implement effective internal controls.</p>	
<i>The Practice of Internal Controls</i>	<i>Personal Service Cost Containment</i>
	
<p>https://www.osc.ny.gov/files/local-government/publications/pdf/the-practice-of-internal-controls.pdf</p>	<p>https://www.osc.ny.gov/files/local-government/publications/pdf/costcontainment08.pdf</p>

In addition, our website can be used to search for audits, resources, publications and training for officials: <https://www.osc.ny.gov/local-government>.

Appendix B: Response From City Officials

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Mayor

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Gina Kenyon
Secretary to Mayor

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Date: March 26, 2026

Chief of Municipal Audits Office of the State Comptroller Glens Falls Regional Office

Re: Draft Audit Report – City of Mechanicville Separation Payments (2025M-59)

Dear Chief of Municipal Audits,

This letter is the City of Mechanicville’s official response to the draft audit report on Separation Payments (January 1, 2022 – September 30, 2024). It also serves as our Corrective Action Plan (CAP), reviewed and approved by the City Council.

Position on Findings We agree with all findings. The issues arose from outdated manual processes and divided oversight during an administration transition. We appreciate OSC’s detailed feedback and are implementing fixes immediately.

Corrective Action Plan We are upgrading our payroll system with a new HR module to strengthen controls. Below, we address each recommendation:

1. **Recommendation:** In consultation with legal counsel, review the payments identified in this report and determine the appropriate course of action, if any, for payments that are inconsistent with the CBAs, contracts or policies.
 - **Action:** Council reviewed the identified payments; two employees voluntarily repaid \$8,266. The remaining \$7,500 was deemed a good-faith error—no further recovery. All documentation retained.
 - **Responsible:** Finance Commissioner
 - **Timeline:** Completed by December 31, 2025
2. **Recommendation:** Establish written policies and procedures for calculating separation payments.
 - **Action:** Formal policy drafted and added to the City Guide for Financial Operations (CGFO). Employee handbook update underway to clarify PTO and separation rules.

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- **Responsible:** Finance Commissioner
 - **Timeline:** June 30, 2026
3. **Recommendation:** Establish a formal process to document and authorize all changes in employment status, salary and wage rates.
- **Action:** Policy added to CGFO. Payroll administrator now processes changes; Finance Office verifies independently.
 - **Responsible:** Finance Commissioner
 - **Timeline:** March 1, 2026
4. **Recommendation:** Ensure that someone who is independent of the payroll process reviews and approves the calculations for separation payments.
- **Action:** Designated clerk as payroll administrator (reviews timesheets, updates records, processes payroll). Finance Office provides independent verification.
 - **Responsible:** Payroll Administrator, Finance Commissioner, Deputy Finance Commissioner
 - **Timeline:** In place January 1, 2026
5. **Recommendation:** Ensure that separation payments are accurately calculated, supported, approved and disbursed in accordance with the terms of the CBAs or employment handbook.
- **Action:** Payroll administrator handles, Finance verifies accuracy per agreements.
 - **Responsible:** Payroll Administrator, Finance Commissioner, Deputy Finance Commissioner
 - **Timeline:** In place January 1, 2026
6. **Recommendation:** Ensure that all employee time sheets are reviewed and approved before certifying the payroll.
- **Action:** Payroll administrator reviews/approves timesheets prior to certification; Finance double-checks.
 - **Responsible:** Payroll Administrator, Finance Commissioner, Deputy Finance Commissioner
 - **Timeline:** In place January 1, 2026

7. **Recommendation:** Ensure that employees receive separation payments for only those benefits to which they are eligible upon leaving City employment.

- **Action:** Payroll administrator confirms eligibility; Finance verifies. Payments over \$5,000 now require legal counsel review.
- **Responsible:** Payroll Administrator, Finance Commissioner, Deputy Finance Commissioner
- **Timeline:** In place January 1, 2026

8. **Recommendation:** Process all separation payments through the routine payroll process.

- **Action:** All separation pay routed through standard payroll; administrator processes, Finance approves.
- **Responsible:** Payroll Administrator, Finance Commissioner, Deputy Finance Commissioner
- **Timeline:** In place January 1, 2026

The payroll upgrade will seal these improvements. We're committed to accuracy, compliance, and protecting taxpayer funds.

Thank you for the helpful guidance.

Sincerely,

Mayor Michael Butler City of Mechanicville

Appendix C: Audit Methodology and Standards

We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed City officials and employees to gain an understanding of payroll and separation payment processes. We also asked officials whether there were any written procedures for calculating separation payments.
- We reviewed the Council's meeting minutes and civil service meeting minutes, which contain resolutions for resignations and retirements. We reviewed employment agreements and the employee handbook to determine the terms governing separation payments.
- We identified four employees who were employed for at least five years and left City employment during our audit period. We examined supporting documentation for all four employees to determine whether the calculations for their separation payments were accurate and in accordance with their employment agreements and the employee handbook. We recalculated the separation payments using the employment agreements and handbook provisions and payment schedules.
- We traced the employees' separation payments that we reviewed to separation payments included in the payroll payments for all four employees.

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.

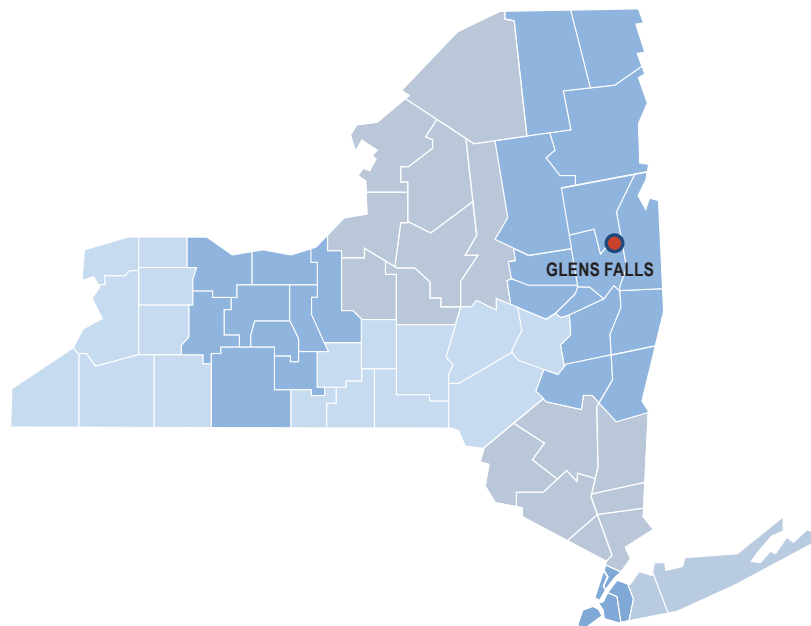
Contact

GLENS FALLS REGIONAL OFFICE – Gary G. Gifford, Chief of Municipal Audits

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