



Bethpage Union Free School District

Leave Accruals

Report of Examination

Period Covered:

July 1, 2013 — November 30, 2014

2015M-100



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

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 Bethpage Union Free School District, entitled 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 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 Bethpage Union Free School District (District) is located in the Town of Oyster Bay in Nassau County. The District is governed by the 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 other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates five schools with approximately 2,900 students and 820 employees. The District's budgeted appropriations for 2014-15 were \$80.4 million funded primarily with State aid, real property taxes and grants. Budgeted appropriations for payroll and associated employee benefits for 2014-15 totaled \$62.7 million, about 78 percent of the total budget.

Objective

The objective of our audit was to determine if the District's non-instructional employees received and used leave accruals in accordance with employment contracts and collective bargaining agreements (CBAs). Our audit addressed the following related question:

- Did District officials ensure that leave records for non-instructional employees were adequately maintained?

Scope and Methodology

We examined the District's leave accrual procedures and records for the period July 1, 2013 through November 30, 2014.

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 they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response

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.

Leave Accruals

Leave accruals represent time off earned by employees. The accumulation and use of leave time is generally addressed in CBAs, individual employment contracts and Board-approved policies, which should clearly stipulate each employee's entitled leave benefits.¹ Employee leave accruals should be granted in accordance with the applicable provisions. In addition, sufficient records should be kept of each employee's leave time accrual and use to ensure employees accrue, use and are paid for the leave time to which they are entitled. Periodic independent reviews of employee leave accrual records and balances throughout the year provide additional assurance that the amount of leave time accrued and used is accurately recorded in accordance with the applicable guidelines.

District employees used leave time to which they were entitled and unused leave payouts were generally made in accordance with CBAs and individual employment contracts. However, recordkeeping procedures could be improved to reduce the risk of leave time being used or paid out for which employees are not entitled.

The Assistant Superintendent for Human Resources (Assistant Superintendent) is responsible for ensuring District staff maintain accurate and timely leave accrual records. This includes recording leave earned and used and reducing the accrued leave balances by unused leave paid to employees. A clerk-typist (clerk), under the Assistant Superintendent's supervision, is responsible for maintaining the leave accrual records.

All full-time non-instructional employees accrue leave time and are eligible for unused leave payouts (payouts) upon separation from District service, in varying amounts, up to a maximum of 300 sick days and the balance of unused vacation pursuant to the applicable CBA or individual employment agreement terms. In addition, central office administrators and directors are eligible for annual payouts of up to eight unused vacation days, pursuant to individual employment agreements.

During our audit period, the District had 107 full-time non-instructional employees, including seven administrators and directors, who accrued leave time and were eligible for payouts. The District paid 19 of these employees a total of \$107,096 for unused leave accruals. However,

¹ Types of leave include vacation, personal and sick.

the District did not have written procedures for maintaining leave accrual records or processing these payouts.

The clerk maintained all employee leave accrual records in the District's financial accounting software application (financial software) and was able to make changes to the leave records without independent review or supervisory approval. As a result, errors or unauthorized changes could be made to the leave records, which could result in employees using or being paid for leave time they are not entitled to.

At the beginning of each school year, the clerk performed a manual process to carry over each employees' accrued leave balances based on the prior year's ending balance from the financial software and credited each employee with the annual accruals based on the terms of the respective CBAs or individual employment agreements. Leave balances are carried forward to the next year by the financial software administrator based on the data input by the clerk. The clerk then sent out statements to each employee showing their carry-over balances. The clerk also manually recorded leave used in the financial software during the course of the year. However, rather than using the financial software's capability to automatically credit the employee accrual records on a monthly basis, as prescribed by the CBAs, on July 1st each year the clerk credited each employees' accrual record with the total number of sick leave days to be earned throughout the entire year. As a result, employee accrual records overstated the amount of sick leave available because the leave had not yet been earned.

In addition, the clerk prepared employee payout vouchers, which were reviewed and approved by the Assistant Superintendent and the claims auditor prior to payment. However, rather than recording a new transaction for each payout in the employee accrual records, as allowed by the financial software, the clerk reduced the number of days previously credited (at the beginning of the year) by the number of leave days paid out. Although the clerk recorded comments in the notes to the employees' maintenance folder regarding the changes made, the resulting accrual records did not accurately reflect the true history of events or the correct leave balances that existed throughout the year.

Because of these weaknesses, we tested leave accrual records for 22 employees to determine if employees accrued and used leave time in accordance with CBAs and individual employment contracts.²

² Twenty-one employees earned sick leave on a monthly basis pursuant to their respective CBAs. The remaining employee, a District administrator, earned an annual sick leave accrual on July 1st each year, pursuant to the terms of her employment agreement.

We also reviewed the calculations for 14 employees' leave payouts totaling \$93,022 to determine whether these employees were accurately compensated.³

Except for minor discrepancies, which we discussed with District officials, employees used leave time to which they were entitled and the District payouts were made in accordance with CBAs and individual employment contracts. However, leave accrual records did not always reflect the actual available leave balances and payouts were not accurately recorded in the financial software.

Additionally, because the leave accrual records were not periodically reviewed by a supervisor, there is a risk that errors or irregularities could occur and not be identified and corrected in a timely manner. As a result, District employees could use or be paid for leave time to which they are not entitled.

Recommendations

District officials should:

1. Design and implement procedures to address maintaining accurate leave records and ensure there is proper oversight over leave benefits. Such procedures could include but are not limited to:
 - A periodic supervisory review of leave accrual records and balances to ensure the leave time accrued and used are accurate and in accordance with applicable CBAs and employment contracts.
 - Supervisory approval for making changes to leave accrual records in the financial software.
2. Consider using the financial software's capability to record sick leave accruals as earned and ensure the clerk records unused leave payouts as separate transactions rather than making changes to the previous amounts recorded.

³ See Appendix B for information on our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BETHPAGE UNION FREE SCHOOL DISTRICT

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SUPERINTENDENT OF SCHOOLS

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July 14, 2015

Attention: Mr. Ira McCracken, Chief Examiner,
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250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
Email: Muni-Hauppauge@osc.state.ny.us

RE: Bethpage Union Free School District
Leave Accruals
Report of Examination 2015M-100, July 1, 2013 - November 30, 2014

Dear Mr. McCracken:

The Bethpage Union Free School District is in receipt of the preliminary draft audit report entitled, "Leave Accruals" for the period 7/1/2013 through 11/30/2014, prepared by the Hauppauge Regional Office of the New York State Comptroller.

As required to comply, within 30 days of the transmittal of the preliminary draft report, the Bethpage UFSD, hereby formally provides the following response to your audit report. This letter, as submitted, delineates the District's official position concerning the audit findings and recommendations, as well as provides the District with the opportunity to identify, and hopefully clarify, certain factual differences, omissions and or inaccuracies which were cited and stated within the subject draft audit report.

In addition, please be aware that the Bethpage Board of Education has elected to take this opportunity to combine its audit response letter and its Corrective Action Plan (CAP) into a single document, and as such, said response letter will serve as the CAP.

We take great comfort that during your exhaustive two month review of many of our business operations (including Procurement, Budgeting, Cash Receipts/Disbursements, Accounting, Information Technology, Payroll, Accounts Payable and Fund Balance) you found no major discrepancies resulting from the processes we currently have in place. The Bethpage School District prides itself on transparency and fiscal discipline and it appears that your auditors confirmed that during their time here.

See
Note 1
Page 11

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In fact, as you point out, our accrual leave accounting also produced no major discrepancies. That is because the manual process for accrual accounting is very tightly managed here in Bethpage and payouts to any employee are reviewed by no less than four individuals: the clerk responsible for maintaining absences for all employees, the Assistant Superintendent for Human Resources, the Payroll clerk and the Claims Auditor. As you note in the report:

Except for minor discrepancies, which we discussed with District officials, employees used leave time to which they were entitled and the District payouts were made in accordance with CBAs and individual employment contracts.

You make two recommendations (italicized) in the report:

Recommendation One:

Design and implement procedures to address maintaining accurate leave records and ensure there is proper oversight over leave benefits.

District Response/Plan of Action:

We will review our procedures, but are pleased that our current system produced no major discrepancies.

The person responsible for such review and any resulting recommendations is Caroline Lavelle, Assistant Superintendent for Human Resources. She shall report her findings to the Board by November 1, 2015.

Recommendation Two:

Consider using the financial software's capability to record sick leave accruals as earned and ensure the clerk records unused leave payouts as separate transactions rather than making changes to the previous amounts recorded.

District Response/Plan of Action:

We will explore the option of fully using our financial software for leave accrual accounting, noting however that idiosyncrasies in various collective bargaining agreements (like converting portions of unused personal days to sick days) will always require manual input. In addition, as explained during your two month review, we are in the process of migrating all employees to the AESOP system for attendance reporting via the web and that will be able to integrate with our financial accounting software once all employees participate (we expect this to be complete by August 1st)

The person responsible for such review and any resulting recommendations is Caroline Lavelle, Assistant Superintendent for Human Resources. She shall report her findings to the Board by November 1, 2015.

Overall, the Bethpage School District is extremely pleased with the failure to find any issue of substance during your exhaustive review. We found the two auditors assigned here for the two months- [REDACTED] to be quite professional and approachable. I will note that based on their feedback, as well as our reading of numerous

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audit reports over the years from the Office of the Comptroller, we thought the tone of our report would be more positive.

For example, the Stockbridge Valley Central School District Report from upstate New York only reported on that district's payroll and leave procedures. Nevertheless, the report delineated the full scope of the areas examined, stating:

See
Note 2
Page 11

Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology (IT). Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas that we reviewed.

Yet, the Bethpage School District report's section on Scope and Methodology simply stated:

We examined the District's leave accrual procedures and records for the period July 1, 2013 through November 30, 2014.

The limited statement about Bethpage effectively ignores the seven weeks' worth of work done by your team who examined over six different areas and found no significant discrepancies in any of the areas.

See
Note 2
Page 11

The Stockbridge report provides any reader with an understanding that many areas were examined before focusing in on one particular area of concern. In fact, when we requested similar language that outlined the larger scope of the audit during our recent meeting, we were told that was not possible. So a reader of the Bethpage audit would assume that the auditors came in and only looked at leave accruals for the entire eight week process when in fact leave accruals were reviewed during the final three days of the audit process. The limited statement about Bethpage ignores seven weeks' worth of work done by your team who examined over six different areas and found no significant discrepancies in any of the areas.

See
Note 2
Page 11

As mentioned, we are pleased with overall finding and we will reflect on those findings as we move forward and outlined above. Enclosed please find the Board of Education resolution accepting the Corrective Action Plan.

See
Note 3
Page 11

Respectfully submitted,

Mr. Terrence Clark
Superintendent of Schools

Attachments
cc: Bethpage Board of Education
J. Marchesiello
J. Woerner

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APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

During the planning phase of our audit, we gained an understanding of the internal control environment in the areas indicated in the District's response. However, we did not perform audit procedures in these areas. We selected the area most at risk, which was leave accruals, and performed audit procedures related to our audit objective.

Note 2

Each audit report that we complete is based on specific audit tests and procedures completed during the audit. Because no two school districts operate in exactly the same manner, it follows that no two audits are identical. Therefore, it is incorrect to assume that issues identified and addressed in different school districts will be reported in exactly the same manner.

Note 3

The District's response contains references to an attachment. Because the response letter sufficiently explains the relevance of this document, it is not included here.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the District's non-instructional employees received and used leave accruals in accordance with employment contracts and CBAs for the period July 1, 2013 through November 30, 2014. To achieve our audit objective and obtain valid evidence, we performed the following audit procedures:

- We reviewed CBAs and individual employment contracts.
- We interviewed key personnel to obtain an understanding of the accrued leave process and the process for the authorization for payments for unused leave.
- We reviewed the largest seven unused vacation payouts from the 12 unused vacation payouts and all seven unused sick payouts to non-instructional employees to determine whether payouts were paid at the correct rate, that the leave accrual balances were earned and available when the payments were made and that the leave accrual records were properly adjusted. We determined our sample size for vacation payouts was sufficient because it represented about 50 percent of such payments. We ensured the total payout population was complete by comparing the reports of leave accrual payouts to the record of all disbursements from the District's financial software.
- We tested 22 full-time non-instructional employees' leave accrual records (from a population of 107) to determine if leave accruals earned were in accordance with CBAs or individual employment contracts, leave accruals were used only after being earned, leave accruals were appropriately carried over and leave used was recorded in the financial software when employees were absent. For our sample of 22, we judgmentally selected the leave accrual records for the clerk, who maintains the leave accrual records; the District Clerk, who works in the same office; and the Assistant Superintendent, who supervises the clerk's work. We used a random number generator to select another 19 employees' leave records from the remaining population. We compared several sources of employee records to ensure that the population (107 employees' leave records) was complete, including monthly payroll reports, monthly reports to the New York State and Local Retirement System and employee master files from the financial software. We determined that 22 employees was a sufficient sample size because it represents a significant portion of the population or approximately 20 percent.

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 D

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