



Newark Central School District

Employee Benefits

2024M-40 | July 2024

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Report Highlights

Audit Objective

Determine whether Newark Central School District (District) officials accurately calculated separation payments.

Key Findings

District officials did not always accurately calculate separation payments and did not ensure an independent review of separation payment calculations was performed. Therefore, calculation errors went undetected and resulted in erroneous and missed payments.

Of the 41 employees we reviewed, 14 separation payments totaling \$66,036 were not calculated correctly, which resulted in separation payment calculation errors totaling \$20,157. Specifically:

- Our audit identified that four employees were not paid separation payments totaling \$16,230, which District officials paid after we brought it to their attention.
- Seven employees' separation payments were overpaid a total of \$3,770.
- Three other employees' separation payments were underpaid a total of \$157.

Key Recommendations

- Establish written policies and procedures for issuing separation payments, including a formal calculation and review process.
- Ensure separation payments are accurately calculated and adequate documentation is maintained to support the calculations and eligibility requirements.

District officials generally agreed with our findings and indicated they will initiate corrective action. Appendix B includes our comment on the District's response letter.

Audit Period

July 1, 2022 – April 9, 2024

Background

The District serves the Towns of Arcadia, Lyons, Marion, Sodus and Palmyra in Wayne County and the Towns of Manchester and Phelps in Ontario County.

The elected seven-member Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible for the District's day-to-day management under the Board's direction.

The Assistant Superintendent for Business oversees the District's business operations, including payroll. The payroll clerk is responsible for processing payroll, including most separation payments. The current payroll clerk started in the position in October 2022. The personnel assistant calculates separation payments made to employees' retirement or health savings accounts. The account clerk maintains and calculates leave accruals and balances. The former account clerk left in February 2024 and a new account clerk started in March 2024.

Quick Facts

Employees	488
July 1, 2022 – November 30, 2023	
Employee Separations	167

Separation Payments

How Can Officials Ensure Separation Payments Are Accurately Calculated?

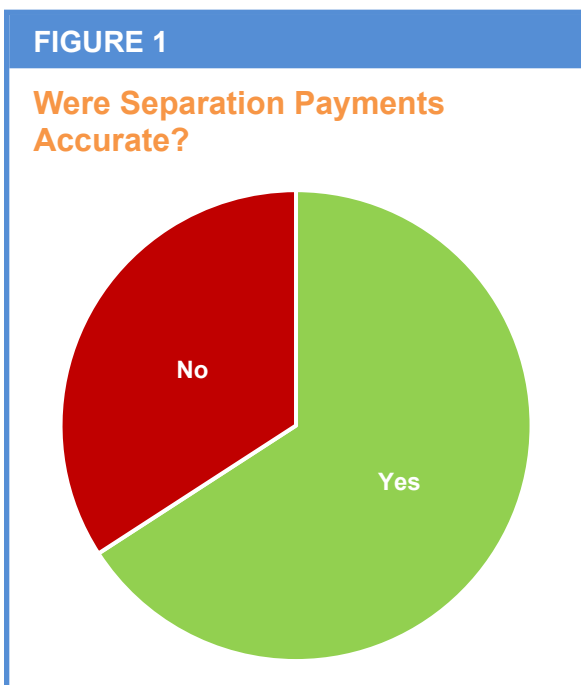
An accurate separation payment is calculated and paid to employees leaving school district employment based on a separation agreement or for unused leave that is accumulated according to an approved employee agreement or collective bargaining agreement (CBA). The District has five CBAs and other individual employment and separation agreements for certain individuals. The CBAs and certain individual employment and separation agreements included provisions for eligible employees to receive a payment for unused leave upon separation from District employment.

Because separation payments can represent significant expenditures for a school district, it is critical that detailed and accurate leave accrual records are maintained and that separation payments are supported, independently reviewed, and approved prior to payment. District officials should establish written policies and procedures for separation payments to help ensure that separating employees are accurately compensated.

Certain Separation Payments Were Not Accurately Calculated

Of the 41 employees we reviewed with separation payments totaling \$117,827, 27 separation payments were correctly calculated (correctly paid a total of \$51,791 or were not owed a separation payment), and 14 (34 percent) totaling \$66,036 were not calculated correctly (Figure 1).

This resulted in separation payment calculation errors totaling \$20,157, including seven employees who were underpaid a total of \$16,387¹ and seven employees who were overpaid a total of \$3,770. The incorrect calculations included individuals not paid, an amount not paid according to the separation agreement, incorrect leave prorations and incorrect daily rates. For example:



¹ This includes four employees that were not paid and three others that were underpaid a total of \$157.

-
- Our audit identified that four employees were not paid separation payments totaling \$16,230, which District officials paid after we brought it to their attention. While the District paid these individuals according to their leave accrual balances, two payments included a total of \$400 for vacation leave converted to sick leave without the Superintendent's approval as required by the CBA. The payroll clerk told us that she did not know that she had to calculate these separation payments because she did not receive documentation for their leave balances, which she used to identify when a payment is needed.
 - One employee was overpaid \$1,379 because their vacation leave was not limited to the maximum accumulation as required by the CBA. The payroll clerk did not provide an adequate explanation for not limiting the leave paid.
 - One employee was overpaid \$1,109 because the payroll clerk incorrectly classified the payment as a vacation leave payout, which used the employee's daily rate of pay, instead of \$40 per sick leave day as required by the CBA.
 - Two employees were overpaid a total of \$1,120 because the leave balance used in the calculation incorrectly included 14 additional sick leave days (each) for the school year after they retired. The personnel assistant told us that this occurred because the leave report was generated after the fiscal year end, when the software had already added the days for the new year, and the leave balance used for the calculation was not adjusted to the retirement date. However, these employees were not entitled to those days.

The inaccurate separation payments occurred, in part, because the Board and District officials did not develop any written policies or procedures for issuing separation payments, including documentation requirements and a formal calculation and independent review process. The Assistant Superintendent for Business told us that District officials did not develop separation payment procedures because the agreements determine how separations are paid. However, the agreements do not provide a process for calculating, reviewing and approving separation payments or state what documentation is required to be maintained to support separation payments. Written policies and procedures would provide expectations and guidance to those individuals involved in the separation payment process.

Without written policies and procedures, the practices established did not provide adequate controls or oversight for separation payment calculations. Specifically, no one independently reviewed the separation payment calculations or leave balance calculations (including any leave proration). In addition, staff generally did not document separation payment calculations, other than the information entered in the payroll software or total transmitted for employee retirement or health savings accounts. Also, the personnel assistant told us that she reviewed

retiring staff for any eligibility requirements and would have notified the payroll clerk if someone was ineligible for a separation payment, but she did not maintain documentation supporting determination of eligibility.

The former account clerk prepared leave balance calculations for certain separations, but did not prepare, or maintain documentation for, these calculations for all of the separations. The former account clerk provided certain leave balance information to the payroll clerk and personnel assistant for use in the separation payment calculations, and they relied on the balances provided. No one independently reviewed the leave balances to ensure that they were accurately calculated prior to making payments.

Therefore, adequate documentation supporting the separation payment calculations was not maintained and the calculations were not adequately reviewed. Without an adequate review and approval process, District officials cannot provide assurance that future separation payments will be accurately calculated.

What Do We Recommend?

The Board and District officials should:

1. Establish written policies and procedures for issuing separation payments, including a formal calculation and independent review process.
2. Consult with legal counsel and determine the appropriate course of action to address the overpayments and underpayments identified.

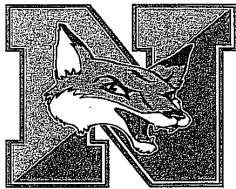
The Superintendent and Assistant Superintendent for Business should:

3. Ensure separation payments and leave balances are accurately calculated and independently reviewed, and adequate documentation is maintained to support the calculations and eligibility requirements.

The Superintendent should:

4. Ensure that staff request approval for conversion of vacation leave to sick leave and approve the conversion as required by the applicable CBA.

Appendix A: Response From District Officials



NEWARK CENTRAL SCHOOL DISTRICT
100 EAST MILLER STREET
NEWARK, NEW YORK 14513
(315) 332-3230 FAX (315) 332-3517

SUSAN HASENAUER
Superintendent of Schools
KRISTA LEWIS
Assistant Superintendent
Curriculum & Instruction
EDWARD K. GNAU
Assistant Superintendent of
Business
CHRISTINE BENNETT
Executive Director of Human
Resources

Every Student, Every Day

June 23, 2024

Edward V. Grant, Jr
Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

The Newark Central School District is in receipt of the findings and recommendations outlined in your DRAFT "Report of Examination" of the Newark Central School District for the dates of July 1, 2022 – April 9, 2024. We are pleased that your staff found no evidence of fraud, theft or professional misconduct. This examination is a welcome opportunity to review and strengthen our financial practices and oversight. We have worked diligently over the last few years to update policy, strengthen internal controls and develop budgets that balance both short term financial priorities with long term financial well-being of the District. We communicate clearly and often with the public about our financial strategies and when creating our annual budget. Our Board of Education meetings are televised twice per month on social media as well as recorded and available on the District website. We are committed to continually improving our process and procedures with Employee Benefits. The Board of Education and the administration take pride in operating the school district with fiscal integrity on behalf of the community.

Ultimately, the scope of the audit focused on examining the District Employee Benefits and separation payments during the period of July 1, 2022 – April 9, 2024. We work closely with our outside independent auditors for review our financial management practices, oversight procedures and financial condition. The District has reviewed your findings and recommendations of this audit and will take corrective action in certain areas.

Establish written policies and procedures for issuing separation payments, including a formal calculation and independent review process.

The Assistant Superintendent for Business, Payroll Clerk and Human Resources office will create a procedure to issue separation payments. A formal calculation will be done with the information from all parties that provide this information to payroll as well as signatures from each of the parties that provides this information for the calculation.

This calculation will then be given to the Assistant Superintendent for final approval and signature before payment will be made to the employee.

This will be in place by August 31, 2024.

See
Note 1
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Consult with legal counsel and determine the appropriate course of action to address the overpayments and underpayments identified.

The information that was shared by the auditors will be disclosed and discussed with the school attorney for guidance on overpayments and underpayments. Underpayments will be made whole as soon as possible following the CBA the employee worked under when they were employed by the District. Overpayments will be discussed with the attorney and then with the Board of Education for resolution.

This is already occurring, and decisions will be finalized by July 31, 2024 to take the appropriate action.

Ensure separation payments and leave balances are accurately calculated and independently reviewed, and adequate documentation is maintained to support the calculations and eligibility requirements.

The Assistant Superintendent for Business, Payroll Clerk and Human Resources office will create a procedure to issue separation payments. A formal calculation will be done with the information from all parties that provide this information to payroll as well as signatures from each of the parties that provides this information for the calculation. Final date of employment, sick days taken(available), vacation days taken(available), any stipends, payroll pro-rated based on daily rate for either salaried, annualized or hourly paid employees.

This calculation will then be given to the Assistant Superintendent for final approval and signature before payment is made to the employee.

This will be finalized and in place by August 31, 2024.

Ensure that staff request approval for conversion of vacation leave to sick leave and approve the conversion as required by the applicable CBA.


The Account Clerk responsible for attendance roll over at the District Office will ensure that days that are rolled over follow the Collective Bargaining Agreement (CBA). For any days that require approval or notification from the Superintendent to be converted from vacation to sick leave, the Superintendent will provide verification that this is ok to do either via email approval or written approval to the Account Clerk.

This will be in place by June 30, 2024.

We thank the Comptroller's Office for offering its opinions and recommendations.

Respectfully,

Susan Hasenauer
Superintendent

Jufie Nevelizer 
Board of Education President

Appendix B: OSC Comment on the District's Response

Note 1

The audit objective focused on whether officials accurately calculated separation payments. The audit team assessed the risk of fraud occurring that is significant within the context of this audit objective, as required by generally accepted government auditing standards. Therefore, the audit results cannot be used to conclude there is no fraud, theft or professional misconduct in the District's operations.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. 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 District officials and employees to gain an understanding of the separation payment process.
- We reviewed CBAs, individual employment agreements and separation agreements to determine leave accrual and separation payment provisions.
- We reviewed the Board meeting minutes and identified 167 employees that separated from the District from July 1, 2022 through November 30, 2023. We reviewed the terms of separation for all employees who left District employment to determine whether they were eligible to receive a separation payment. Based on the employees' position, applicable agreement and type of separation (such as resignation or retirement), we determined that 41 of the 167 employees who separated from the District were potentially eligible for separation payments. We reviewed documentation, recalculated leave balances and daily rates and inquired with District officials and employees for all 41 to determine whether separation payments were adequately supported, reviewed, approved and accurately calculated and paid according to the provisions of the agreements.
- We discussed the identified overpayments and underpayments with District officials and 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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.ny.gov/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Stephanie Howes, Chief of Municipal Audits

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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