Middle Country Central School District

Review of Separation and Paid-Time-Off Buy Back Payments

For the 2024-2025 School Year

CERINI & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

January 2025

The Board of Education
Middle Country Central School District
8 43rd Street
Centereach, NY 11720

Board of Education:

We have been retained to function as the internal auditor for the Middle Country Central School District (hereinafter, "the District"). Our responsibility is to assess internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND:

Employee benefits, including separation and buyback payments represent significant financial commitments for school districts. Such payments are governed by collective bargaining agreements (CBAs), individual employment agreements, and applicable District policies. Given that separation payments can constitute substantial expenses for a school district, it is essential to maintain detailed and accurate leave accrual records. Additionally, these payments should be properly supported, independently reviewed, and approved before being disbursed.

> **Separation Payments –** The District generally has the authority to make payments of the monetary value for all, or a portion, of an employee's earned but unused, leave accruals when the employee separates from the District. Authority to make these payments may be pursuant to the terms listed in the employee's CBA.
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> **Paid-Time-Off (PTO) Buyback Payments –** The District offers buyback payment options to incentivize attendance and encourage efficient use of paid time off. Buyback payments for an employee's earned but unused PTO accruals are made on an annual basis. Employees are required to notify the District in writing their intention to exchange accumulated days for a determined monetary amount. These annual payments are then made in accordance with the terms and timing set forth in the employees' respective CBA.

PURPOSE AND SCOPE:

The purpose of our review was to assess whether the District has established adequate procedures and internal controls surrounding separation and buyback payments and to determine whether the District has accurately calculated separation and buy back payments for eligible employees.

The scope of our review included:

- Interviewing key staff including:
  - Assistant Superintendent of Business
  - Assistant Superintendent of Human Resources (HR)
  - Payroll Supervisor

    - Classified Personnel Assistant
    - Instructional Personnel Assistant
    - Attendance Clerk
    - Assistant Business Administrator
    - Treasurer
- Reviewing the District employees' respective CBAs to determine the criteria for payment eligibility.
- Reviewing the District's current processes for determining payment eligibility, budgeting for payments, calculating payments and processing payments.
- Testing a sample of separation and buy back payments for accuracy.

Through our interviews and review of the District's supporting documentation, we developed an understanding of the current processes the District follows to determine eligibility for and the calculation of separation and buyback payments. We observed that leave accruals (including vacation, sick, and personal leave balances) are tracked in the District's financial and human resources software, nVision. For the purposes of this audit, we utilized the accrued leave balances as maintained within nVision, though it should be noted that we have not independently verified the accuracy of these balances.

RESULTS OF REVIEW:

Based on the review performed, the District has begun to implement new internal controls to ensure that employees are appropriately compensated for unused vacation and sick time at the time of separation and during the annual buyback period. We noted opportunities where internal controls could be improved. The detailed results of our review and recommendations are documented below:

I. REVIEW OF SEPARATION AND BUYBACK PAYMENT PROCESSES

SEPARATION PAYMENTS:

The District provides separation pay package to most CBA groups, including but not limited to teachers, teaching assistants, aides, administrators, custodians, and other employees. While the specific eligibility requirements for payouts vary by CBA, generally, employees who have worked at the District for a sufficient period—typically 10 years—must provide at least 90 days' notice of their intent to retire. These notices are typically submitted directly to HR or to the building principals. Eligible employees are entitled to a fixed payout incentive (e.g., $10,000 or $15,000) as well as a variable payout for unused sick days, calculated using their final per diem rate at the time of retirement and a conversion factor (e.g., one day paid for every 2 or 5 unused days). The sick day payout is based on the final attendance records in nVision. The instructional personnel coordinator verifies the final attendance data against information provided by individual buildings and then calculates the payouts using the employee's sick leave balance, final per diem compensation rate, and the CBA's conversion rate. This calculation is then forwarded to the Assistant Superintendent of HR for approval.

The Assistant Superintendent for HR reviews the employee list on the spreadsheet to confirm eligibility based on historical knowledge. However, this review does not include verification of attendance balances, and the Assistant Superintendent of HR only assesses payout amounts for

reasonableness rather than compliance with the CBA. Once approved, the calculation is sent to payroll for recalculation and processing.

The Payroll Supervisor subsequently reviews the per diem rates and the overall accuracy of the spreadsheet, however, no validation against other data sources or agreement with CBA terms is performed. Once the Payroll Supervisor completes her review, the payout is prepared for processing in nVision. The Assistant Business Administrator reviews and approves the payout before it is processed. For certain bargaining units, such as teachers and teacher aides, payouts are made as deferred compensation paid into Voya retirement accounts, while other units, such as heads, chiefs, and maintenance staff, receive payouts via payroll checks. In the event that an employee has maxed out their annual Voya contribution, the District maintains the balance of the money due and transfers the remaining amount into the employee's Voya account that following January.

A total of 59 employees received separation payments amounting to $2,948,284. The chart below illustrates the District's separation payments for the period July 1, 2023 through November 13, 2024. It outlines the number of employees, and the total payment amounts by unit, along with the average cost per day.

July 1, 2023 through November 13, 2024 Separation Payment Totals

Unit	Total $ Amount	Total Employees	Avg $ Employee	Total Days	Avg per diem $
Admin Association	$ 739,536	3	$ 246,512	946	$ 782
Clerical	$ 161,585	7	$ 23,084	411	$ 394
Heads & Chiefs	$ 67,172	4	$ 16,793	225	$ 298
Maintenance	$ 32,875	3	$ 10,958	143	$ 230
Monitors	$ -	-	$ -	-	$ -
Nurses' Association	$ -	-	$ -	-	$ -
Teachers	$ 1,631,076	29	$ 56,244	4,951	$ 329
Teacher's Aides	$ 2,932	2	$ 1,466	13	$ 227
Teacher's Assistants	$ 42,129	5	$ 8,426	199	$ 212
Transportation	$ 13,179	3	$ 4,393	61	$ 217
Unaffiliated	$ 257,799	3	$ 85,933	471	$ 548
Total	**$ 2,948,284**	**59**	**$ 453,809**	**7,418**	**$ 3,238**

BUYBACK PAYMENTS:

Most employee units are eligible for vacation and sick leave buybacks, as outlined in their respective CBAs. Employees wishing to participate in a buyback program submit a form detailing the number of days they are eligible to sell back, along with the number of days they wish to request. The Personnel Assistant then verifies the employee's balance against their accrual in nVision, calculates the buyback total, and forwards the form to the Assistant Superintendent of HR for approval. Once approved, the form is sent to the Payroll Supervisor, who verifies the mathematical accuracy of the calculation and confirms that the correct salary has been applied. Following this review, the check is issued.

The chart below illustrates the District's buyback payments for the 2023-2024 fiscal year. The District paid 176 employees a total of $765,000. The chart indicates the number of days paid out, the average payment per employee, and the average daily rate per unit.

2023-2024 Buyback Payment Totals

Unit	Total $ Amount	Total # of Employees	Avg $ Employee	Total Days	Avg per diem $
Admin Association	$ 435,287	38	$ 11,455	489	$ 890
Clerical	$ 73,732	46	$ 1,603	324	$ 228
Heads & Chiefs	$ 36,774	15	$ 2,452	156	$ 236
Maintenance	$ 68,088	34	$ 2,003	305	$ 223
Monitors	$ 1,189	1	$ 1,189	14	$ 85
Nurses' Association	$ 440	1	$ 440	8	$ 55
Teachers	$ 2,200	5	$ 440	40	$ 55
Teacher's Aides	$ 9,692	8	$ 1,211	64	$ 151
Teacher's Assistants	$ 10,127	3	$ 3,376	51	$ 199
Transportation	$ 7,639	5	$ 1,528	40	$ 191
Unaffiliated	$ 119,833	20	$ 5,992	242	$ 495
Total	**$ 765,000**	**176**	**$ 31,687**	**1,733**	**$ 2,313**

***Auditor's Comment**: As the District enters the next negotiation cycle, it is important to assess the feasibility of reducing the amount of sick leave granted to employees. Providing a generous allotment of time off, coupled with allowing employees to accumulate up to 230 days for future separation payouts, places a significant financial burden on the District. We strongly encourage the District to evaluate the full financial impact of these contract provisions, including both separation and buyback payment costs.*

Issue #1: We noted that the District lacks formally documented procedures and protocols for separation and buyback payments.

Risk: The absence of clearly defined, formalized procedures could result in inconsistencies, compliance issues, financial mismanagement, and a lack of accountability.

Level: Moderate

Recommendation: Given the recent staff changes in HR and the complexities of separation and buyback payments, we recommend that the District formally document its procedures. While CBAs may determine how payments are made, they do not provide a process for calculating, reviewing and approving payments. Documenting these procedures will ensure clarity and consistency, reduce the risk of disputes, facilitate compliance with legal requirements, streamline the HR and payroll staff's workflow, and enhance accountability. It will also support training for new staff.

Management Response: *The District agrees with this recommendation and plans to formally document its procedures surrounding Separation and Paid-Time-Off Buyback payments.*

Planned Completion Date: *June 1, 2025*

Issue #2: We noted that the District does not consistently use the data fields in nVision correctly. For example, the "miscellaneous tab" in the HR module was used to indicate when an employee separated from the District or changed positions. During our interviews, employees stated that they are uncomfortable relying on the nVision HR data. It was explained that, in the past, when an employee changed positions within the District, they were "terminated" and a new position was created in the system, leading to incorrect position IDs, false vacancies, and unreliable personnel data, such as start or end dates.

Additionally, we noted that the District has not established a separate budget line for separation and buyback payments, making it difficult to track these expenses.

Risk: The risks associated with these issues include inaccurate data, unreliable system functionality, improper financial tracking, and inefficiencies in HR and financial management.

Level: Moderate-High

Recommendation: We recommend that the District continues its efforts to formally train employees using nVision. A clear understanding of system fields and features should be established and consistently applied by all users. As time permits, employee HR data should be verified and updated as necessary.

Furthermore, we recommend that the District establish separate budget lines for separation and buyback payments. Given the significant expenditures related to these benefits, having dedicated budget lines will make it easier to track spending and support more effective budgeting and financial planning. Tracking trends in employee turnover, retirement and separations can help the District predict and manage future liabilities. If there is an increase in separation payments, the District may need to adjust its workforce planning or employee retention strategies. By isolating separation and buyback payments, the District can monitor the impact of unused leave and assess how it may affect budgeting.

Management Response: *The District agrees with this recommendation and has provided nVision training to both Human Resources and Benefits staff. Due to the high number of changes that are needed to be reliant on the system in terms of accuracy & completeness, the Human Resources and Benefits staff are making the changes as they find them and as new people are hired. In regard to the tracking of paid time off and separation expenditures in a specific code in the budget, that code already exists and the District will utilize this code moving forward for all payouts.*

Completion Date: *February 3, 2025*

Issue #3: The spreadsheets used by the District to calculate separation pay are incomplete and inaccurate.

Risk: An inaccurate and incomplete spreadsheet used to calculate separation payments could lead to inaccurate financial calculations, potential compliance issues and operational inefficiencies.

Level: High

Recommendation: We recommend that the District update its current separation pay calculation spreadsheets to include a column for total accrued sick days. Additionally, the spreadsheet should be reviewed by both the user and an independent reviewer each time it is created to ensure accuracy in both the calculation criteria (to ensure alignment with the current CBA terms) and the proper application of formulas.

Furthermore, we recommend the District create and utilize a comprehensive reference spreadsheet that lists key terms and criteria for separation and buyback payments for each employee CBA. This reference tool should be updated each time a CBA is amended and would help ensure consistency and accuracy when calculating separation and buyback payments.

Management Response: *The District agrees with this recommendation and has begun to update its spreadsheets.*

Planned Completion Date: *June 1, 2025*

II. RECALCULATION OF SEPARATION AND BUYBACK PAYMENTS

We requested listings of separation payments for the period July 1, 2023 through November 13, 2024 and buyback payments for the period July 1, 2023, to June 30, 2024. During these respective periods, there were 59 separation payments totaling $2,948,284.41 and 176 buyback payments totaling $765,000.48. For testing purposes, we selected a sample of 12 separation payments, amounting to $1,344,930.64, and 10 buyback payments, totaling $81,574.83. For each sample, we verified the employee's eligibility for payment by reviewing the applicable CBA, leave accruals in nVision, and HR data. We then confirmed the accuracy of each payment by tracing the calculation criteria to source documents, such as the employee's CBA and nVision data. Additionally, we recalculated the payments to verify their mathematical accuracy and reviewed the approval process for each payment.

Issue #4: The District currently relies heavily on legacy knowledge when reviewing separation payments, rather than consistently referring to the CBA contract, nVision, and the employee's individual personnel file. This lack of consistent document review has resulted in inaccurate separation payments.

Errors identified during our testing underscore the need for stronger processes and controls to ensure the accuracy and compliance of separation and buyback payments:

1) **Ineligible Separation Payment:** We noted that the District issued a separation payment of $24,016.07 to an employee who did not meet the eligibility criteria. The employee's contract stipulates that retirement notice must be provided by February 1st of the school year preceding the payment and at least ninety (90) days before the retirement date. However, the employee submitted their retirement notice on April 8th and retired on June 24th less than 90 days before the retirement date.
2) **Incorrect Separation Payment Calculation:** We noted an employee's separation payment was overpaid by $47,763. This error occurred due to the application of the wrong incentive payment, an incorrect daily salary rate, and an inaccurate calculation of the maximum sick day allowance.
3) **Excess Buyback Payment:** We noted, an employee was paid for 8 buyback days when only eligible for 5. Additionally, the buyback was incorrectly entered into nVision as 5 days instead of 8. As a result, when the employee separated the following fiscal year, they were paid for 3 additional days, leading to an overpayment of $1,313.

Risk: Relying on legacy knowledge instead of consistently referring to the proper sources can lead to inaccurate payments, increased risk of errors, noncompliance with contract terms, and lack of consistency.

Level: High

Recommendation: We recommend the District consult with legal counsel when determining the appropriate course of action to address the District's identified overpayments.

Additionally, it's recommended that the District implement a more robust review process to ensure compliance with eligibility requirements for separation payments. HR should verify that the employee has met all eligibility criteria outlined in the CBA, HR and PR should cross reference each of the payment criteria to its incorporated reference spreadsheet to help flag discrepancies (see Issue #3).

Given the risks associated with separation and buyback payments, we also recommend that the District implement additional layers of review and approval. As the individual responsible for the District's budget, the Assistant Superintendent of Business should conduct a final review of each payment. Additionally, the District should leverage its in-house claims auditor to review separation and buyback payments before they are processed and distributed.

Management Response: *The District agrees with this recommendation. In addition to Human Resources and Payroll calculating and reviewing the payouts, the Claims Auditor will review every payment that is scheduled. The review will include checking the contract terms, verifying the time is accurate and that calculations are correct. A final sign-off will be the Assistant Superintendent for Business.*

Planned Completion Date: *June 1, 2025*

Issue #5: We noted during testing of the District's separation pay, that the District's practice has been to grant Unaffiliated Administrators the full allotment of additional vacation days each July 1st, rather than prorating the days to accrue vacation time throughout the year. As a result of this practice, we identified an instance where an employee was granted 22 vacation days on July 1st, left the District on August 12th, and was subsequently paid for all 22 days, despite having only accrued approximately 4 days. The District paid the employee $14,000 for unearned vacation days.

Level: Moderate

Risk: Not prorating vacation days can expose the District to the risk of overpaying for vacation time that has not been earned.

Recommendation: We recommend that the District prorate its vacation allocation to ensure financial efficiency and accountability.

Management Response: *The District agrees with this recommendation. The District policy will be revised to specify that vacation will be prorated.*

Planned Completion Date: *June 1, 2025*

We would like to thank the District's staff for their cooperation and professionalism during our audit.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates, LLP

Cerini & Associates, LLP
Internal Auditors