



To: Mike Coupe, Chief Financial Officer

Cc: Tom Gordon, County Executive
Dave Grimaldi, Chief Administrative Officer
Mike Mackiewicz, Accounting & Fiscal Manager
County Council
County Audit Committee

From: Bob Wasserbach, County Auditor

Subject: Compensated Leave Footnote in County Financial Statements

Date: July 26, 2013

During our 2012 Severance Payments audit, one of our audit objectives was to “Determine whether the Compensated Leave liability and accompanying footnote contained in the Comprehensive Annual Financial Report appear reasonable.”

Our review of the liability and footnote resulted in the following comment which we first addressed with the Finance Department last year. In a recent meeting Mike Mackiewicz and I had with the external auditors, SB & Co., a decision was made to include the applicable accrued vacation (i.e., the 2014 vacation accrued as of 6/30/13) in the liability for the accrual-based government-wide statement of net assets. Therefore, a response to this memorandum is not necessary.

Comment

Footnote #8 to the June 30, 2012 CAFR (Comprehensive Annual Financial Report) states: “The County accrues a liability for vacation, sick, and other compensated leave as the leave is earned by the employees to the extent it is probable that the county will compensate the employees for the leave through paid time off or some other means, such as cash payments at termination or retirement.

County employees earn vacation leave depending on their length of service. Vacation leave, depending on years of service, accumulates on a monthly basis and is fully vested when earned. Accumulated vacation leave cannot exceed 30 days or 50 days, depending on union affiliation, at the end of any calendar year ...”

We reviewed the PeopleSoft information which is used to prepare this footnote and noted that accrued vacation for the following calendar year (i.e., six months accrued 2013 vacation in the case of the 6/30/12 financial statements) is not included to the extent it is probable that the County will compensate the employees for the leave through paid time off or other means. This is apparently because the accrued vacation for the following calendar year is not actually posted within PeopleSoft until early the following year.

We consulted with Stephen Gauthier, the Director of the Government Finance Officers Association's (GFOA's) Technical Services Center and the author of "Governmental Accounting, Auditing, and Financial Reporting", on this issue. His response to our inquiry on whether the accrued vacation should be included in the footnote was as follows:

"Yes, the amount would be accrued. The operative authoritative guidance can be found in GASB Statement No. 16, Accounting for Compensated Absences, paragraph 7:

An employer usually would accrue a liability for vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Benefits that have been earned but that are not yet available for use as paid time off or as some other form of compensation because employees have not met certain conditions (for example, a minimum service period for new employees) should be accrued to the extent it is probable that the employees will meet the conditions for compensation in the future. However, benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability."

We showed the above response to the County's external auditors who informed us that the accrued vacation should be included in the liability for the accrual-based government-wide statement of net assets but does not need to be included in the liability at the fund level. The external auditors said they would consult with the County's Finance Department to determine the materiality of the amount and then determine whether that amount should be included in the footnote and the applicable financial statement.

Recommendation

We recommend that the Finance Department evaluate the guidance we received from the Director of the GFOA's Technical Services Center and determine whether this accrued vacation should be included in the liability for the accrual-based government-wide statement of net assets.