



City of Johnstown

Internal Controls Over Payroll

Report of Examination

Period Covered:

January 1, 2014 — January 31, 2015

2015M-75



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 City Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and Common Council governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the City of Johnstown, entitled Internal Controls Over Payroll. 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 local government 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 City of Johnstown (City) is located in Fulton County and has approximately 8,700 residents. The City is governed by the Common Council (Council) comprising an elected Mayor, an elected Council member-at-large and four elected Council members representing each of the City wards. The Council is responsible for the general management and control of the City's operations. The Mayor is the chief executive and administrative officer and is responsible for providing oversight and establishing policies to govern the City's operations. The elected City Treasurer (Treasurer) is the chief fiscal officer and is responsible for maintaining accounting records, including payroll records and reports. Department heads are responsible for transmitting payroll timekeeping records and documentation to the Treasurer's office for review and submission to the City's payroll vendor for processing.

The City provides services to its residents including police and fire protection, street maintenance, water and sewer. The City's 2014 general fund budget totaled approximately \$14.7 million and was funded primarily by property taxes, sales tax, user fees and State aid. The City's 2014 general fund expenditures totaled approximately \$13.8 million, of which \$4.9 million was used to fund payroll expenditures.

Objective

The objective of our audit was to determine if adequate internal controls were maintained over the City's payroll procedures. Our audit addressed the following related question:

- Are internal controls over payroll appropriately designed and operating effectively to ensure employees were paid accurately?

Scope and Methodology

We examined controls over the City's payroll process for the period January 1, 2014 through January 31, 2015.

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 B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with City officials, and their comments, which appear in Appendix A, have been considered in preparing this report. City officials agreed with our recommendations and indicated they plan to take corrective action.

The 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 forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. 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 Council to make this plan available for public review in the Clerk's office. City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Payroll

Council and City officials are responsible for establishing internal controls over payroll to ensure that employees are paid wages and salaries and provided benefits to which they are entitled. Such controls include written policies and procedures for preparing and disbursing payroll and for maintaining timekeeping records. Employee timekeeping records should contain adequate supporting documentation, including the dates and hours worked and the times employees log in and out of work. Employee timekeeping records should be reviewed and approved by supervisory personnel who have direct contact with the employees, and supervisors' timekeeping records should be reviewed and approved by the Mayor. The Council should provide written authorization for salaries, wages and fringe benefits. Additionally, financial duties should be segregated so that one person does not control all phases of a transaction. Finally, management oversight is an important control to help ensure that established procedures are followed.

The salaries, wages and fringe benefits of City personnel were authorized through collective bargaining agreements, the employee handbook and Council resolutions.¹ Payroll timekeeping records are summarized by department heads² on uniform payroll input sheets, which list hours worked, leave time used and rate of pay for hours worked, and reported to the Treasurer's office for processing. The account clerk in the Treasurer's office receives this information and transmits it to the payroll vendor for processing. Once processing is complete, the City receives payroll reports³ and paychecks from the payroll vendor. Lastly, department heads sign a payroll certification form approving the total biweekly payroll amount and collect their departments' paychecks for distribution.

However, key controls were not appropriately designed and operating effectively. Although the City had properly segregated payroll duties, management oversight was lacking. The Council did not establish written policies and procedures for preparing and disbursing the City's payroll or for the maintenance of timekeeping records. For example, City officials did not compare processed payroll registers to the approved time records. Further, departmental timekeeping processes

¹ The Treasurer includes a detailed salary schedule by position in the budget adopted by the Council; therefore, the Council approves non-union employees' salaries and wages with the adoption of the budget.

² Department heads are the Chief of Police, Fire Chief, City Engineer, City Attorney, City Clerk, Assessor and Treasurer.

³ Including the payroll register, deductions reports, leave accrual records and direct deposits

used were not consistent. For example employees in the Department of Public Works used a time clock and completed manual time sheets, while Fire Department employees' time records were prepared by the shift supervisor and the Fire Chief. We also found that time records for department heads were not reviewed or approved by the Mayor before being submitted to the Treasurer,⁴ and only some department heads signed employee time records to document their approval.

We tested payroll records for 60⁵ employees with gross pay totaling \$103,650 over four pay periods and found that the gross pay was accurately calculated based on Council-approved rates, collective bargaining agreements and the employee handbook. However, records for the 55 employees⁶ required to maintain time records did not contain adequate documentation to support the payments made (multiple records had more than one deficiency):

- Ten payroll records related to gross pay totaling \$21,537 did not include the times when employees logged in and out of work, but only the total number of hours worked for each day. For example, one time record indicated the employee worked 66 hours and used 14 hours of accrued leave time, but did not indicate when the employee started and ended work each day.
- Seventeen payroll records related to gross pay totaling \$21,945 contained only the total amount of hours worked and leave time used during the pay period. There was no documentation of the starting and ending work times or the number of hours worked each day.
- Twenty-eight payroll payments totaling \$50,557 were supported by time records that included the employees' time in and out of work and the total number of hours worked and leave taken each day. However, time records for six payrolls related to gross pay totaling \$13,858 were not completed for the entire pay period. For example, one employee's daily activity reports were completed for only five of the seven days the employee was scheduled to work during the pay period.
- Forty-seven payroll records for gross pay totaling \$77,708 did not contain supervisory approval.

⁴ Department heads report to the Mayor, with the exception of the Treasurer who is elected.

⁵ See the Audit Methodology and Standards section for the sampling methodology used to select the 60 payroll transactions.

⁶ Five of the 60 employees selected and reviewed were elected officials who were not required to maintain time records.

The Council's lack of comprehensive written policies and procedures for payroll processing has resulted in the lack of proper management oversight and insufficient timekeeping records. Although our testing did not reveal any material discrepancies, inadequate internal controls increase the risk of the City making unauthorized payments or employees receiving pay for unauthorized time not worked.

Recommendations

The Council and City officials should:

1. Establish comprehensive written policies and procedures for processing payroll and maintaining time records. Such procedures should include consistent timekeeping processes among City departments.
2. Require department heads and supervisors to document their approval of time records.
3. Require detailed time records to be maintained with adequate supporting documentation.

The Treasurer should:

4. Compare processed payroll to payroll source documents to maintain management oversight of payroll processing.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



33-41 East Main Street • Johnstown, New York 12095

Mayor
(518) 736-4012

Council Member
(518) 736-4011

City Assessor
(518) 736-4015

City Attorney
(518) 736-4018

City Treasurer
(518) 736-4017

City Clerk
(518) 736-4011

City Engineer
(518) 736-4014

Code Enforcement
(518) 736-4076

Fire Chief
(518) 736-4079

Library
(518) 762-8317

Police Chief
(518) 736-4020

Senior Center
(518) 762-4643

July 2, 2015

Chief Examiner
Office of the State Comptroller
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801-4396

Re: City of Johnstown
Internal Controls Over Payroll
Report of Examination (January 1, 2014 – January 31, 2015)

Dear Chief Examiner,

We write to acknowledge the City of Johnstown’s receipt and review of the above referenced draft report. The City of Johnstown agrees with the report and is drafting a corrective action plan, which will be presented to the City of Johnstown Common Council.

It is our understanding the examination did not reveal material discrepancies in the payroll system, but we understand the need for better documentation to minimize risk within the system. Implementing your recommendations will assist the City of Johnstown in minimizing risk. Therefore, the corrective action plan will reflect establishing written policies and procedures, requiring management’s documentation of approval of time records, maintaining detailed time records with adequate supporting documentation and establishing an internal audit function for comparing processed payroll to source documents.

We thank you for the resources committed to the examination and commend your staff for its professionalism. Please contact us if you need additional information.

Sincerely,

Michael B. Julius
Mayor

Michael C. Gifford
City Treasurer

Kathi I. Iannotti
Council Member Ward 2



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy the City's internal controls over payroll for the period January 1, 2014 through January 31, 2015.

To accomplish our audit objective and to obtain valid audit evidence, our audit procedures included the following:

- We interviewed City officials and employees and reviewed the City's employment agreements, collective bargaining agreements and various financial records and reports to gain an understanding of the internal controls over payroll processing and any associated effects of deficiencies in those controls.
- We selected the following samples for testing to verify that employees were paid accurately based on Council-approved salaries and wages, deductions were accurately deducted based on employment agreements or collective bargaining agreements and payments were supported by complete and appropriate time records. We judgmentally selected a sample of four pay periods during our audit period, based on the volume and variety of transactions. From those four pay periods, we judgmentally selected a sample of seven employees based on their direct involvement in processing payroll and a random sample of 53 employees using a computerized random number generator.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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