



# City of Mount Vernon

## Payroll

### Report of Examination

Period Covered:

January 1, 2013 — April 21, 2014

2014M-347



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 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 City 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 Mount Vernon, entitled 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 City, 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 Mount Vernon (City) is located in Westchester County, encompasses approximately four square miles and serves approximately 68,000 residents. The City Council (Council) comprises five members and is the legislative body responsible for setting the City's governing policies. The Mayor serves as the City's chief executive officer and appoints all department heads. An elected City Comptroller (Comptroller) is responsible for the custody of City funds and processing payroll checks. The City's budgeted appropriations for the 2014 fiscal year were approximately \$96 million – of which \$80 million was attributed to payroll and related benefits – financed primarily with real property taxes, sales tax and State aid.

Commissioners are responsible for their respective departments' payroll time reporting. Department timekeepers prepare biweekly payroll summaries and track leave time available and used. As of April 2014, the City had approximately 900 employees, of which approximately 700 were full-time. An additional 200 employees are hired for seasonal work (summer), primarily by the Youth Board, Recreation and the Department of Public Works.

## Objective

The objective of our audit was to determine if City officials provided sufficient oversight of employee time and attendance and leave accruals. Our audit addressed the following related question:

- Do City officials exercise effective oversight over payroll processing and leave accruals?

## Scope and Methodology

We examined payroll transactions and leave accrual records for 10 selected City departments for the period January 1, 2013 through April 21, 2014. To perform testing on the Recreation Department's payroll, we extended our audit period forward through October 31, 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 is included in Appendix C of this report.

## Comments of City 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 generally agreed with our findings and indicated they plan to initiate corrective

action. Appendix B includes our comments on issues City officials raised in their response.

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 City Clerk's office.

# Payroll

An effective system of internal controls over payroll processing helps ensure that employees are paid only those wages, salaries and benefits to which they are entitled. Internal controls include effective management oversight of those charged with processing payroll and adequate segregation of financial duties so that no one individual can control all aspects of financial transactions. Good controls include having and enforcing written policies and procedures to provide reasonable assurance that complete and accurate time and attendance records are maintained, overtime is adequately documented, the use of leave accruals is monitored and payroll transactions are monitored and reviewed routinely.

City officials need to improve internal controls over employee time and attendance records and payroll processing. Because the Council has not adopted policies related to payroll and the Comptroller has not established standard procedures for all departments concerning the recording and reporting of payroll, employee accruals were not charged correctly for time taken: two employees were overpaid and one employee was underpaid. In addition, some employees were not required to maintain any form of documentation supporting hours worked. Therefore, City officials have no evidence that \$53,339 of payments made to 15 employees were necessary or accurate. Without effective internal controls over the payroll process, there is an increased risk that employees will be paid for time they may not be entitled to.

## **Segregation of Duties**

To help reduce the risk of errors and irregularities, it is imperative to segregate payroll functions so that no one employee performs all aspects of a payroll transaction. If it is not feasible to adequately segregate duties over the entire payroll process, the Comptroller must implement compensating controls, such as additional procedures or reviews, to limit the risk.

Both the payroll administrator and payroll clerk created computerized employee records, added and deleted employees from the payroll software, entered payroll data changes and salaries paid and prepared paychecks. There was no independent review of payrolls and payroll activities. The chief accountant oversaw annual payroll changes and infrequently compared a sample of employee salaries to the salary schedule from the Board of Estimate and Contract but did not document this work.

Because of these payroll weaknesses, we reviewed 106 gross payroll payments of \$393,208 to three key employees in the Finance

Department: the payroll administrator, payroll clerk and chief accountant. We found that the payroll administrator and payroll clerk made undocumented changes to their withholding deductions and union dues throughout the audit period. The payroll administrator made multiple changes to federal and State withholdings without any documentation or independent review. The payroll clerk had similar withholding changes and did not have union dues deducted from 25 of 34 paychecks. To change withholdings, the payroll administrator and clerk should have filed forms to substantiate the change.<sup>1</sup>

The lack of proper segregation of duties allowed the payroll administrator and payroll clerk to make undocumented changes to their withholdings. In addition, without adequate oversight, these employees could make unauthorized changes to pay rates and withholdings that would go undetected. After we brought these discrepancies to the Comptroller's attention, she instituted oversight procedures to reduce the risk of this occurring again in the future.

## **Policies and Procedures**

Written payroll policies and procedures help ensure that employees are paid only those wages or salaries and benefits to which they are entitled. The Council and Comptroller are responsible for developing written payroll policies and implementing related control procedures to help ensure that payroll is processed consistently and accurately. Leave accruals must be properly maintained and reviewed for accuracy. Employees should be required to maintain daily records of hours worked, and supervisors should be required to approve their employees' time records to ensure time worked is properly recorded before the departments' payroll summaries are submitted to the Payroll Department for processing.

The City does not have comprehensive written policies and procedures to provide proper guidance and internal controls over preparing and processing payroll. Each department head designates an individual to serve as a timekeeper and prepare payroll summaries. Each department uses its own procedures over time and attendance. Not all departments required employees to complete, submit or certify time sheets or time cards to support their hours worked. The designated department timekeepers manually record hours worked on payroll summaries on an exception basis. Standard biweekly work hours (70 or 80 hours) are paid unless the department timekeeper enters other information. Once the Commissioners approve the payroll summaries, the summaries are given to the Payroll Department for entry into the payroll system. Although payroll summaries had all been approved by the Commissioners, we found errors and discrepancies in the pay periods we tested.

<sup>1</sup> A form W-4 for Federal Withholding Taxes and New York State IT 2104 are required for employees to make changes in tax withholdings.

Leave Accruals – A good system of accounting for employee leave time requires periodic verification that the records for leave time earned and used are accurate and prepared in a timely manner. Maintaining accurate leave time accrual records ensures that employees are only paid for time they are entitled to. It is important for procedures to be designed to ensure that leave time is earned in accordance with City policies, collective bargaining agreements and Council resolutions, and that days used are properly deducted from employee leave time accruals.

We tested 70 instances of leave use by 36 employees<sup>2</sup> from 10 departments for the months of July and August 2013. Our sample included 3,546 hours of leave used with a value of \$138,574. We found that four employees were not charged correctly for 28.5 hours of leave time valued at \$859, as detailed below:

- The department timekeeper allowed an employee to carry over 10 hours of excess sick leave, valued at \$294.
- A roll call documented that an employee took eight hours of sick leave valued at \$218 that was not reported on the absence report.
- One employee did not have 3.5 hours of sick leave deducted from his accruals, valued at \$175.
- One employee did not have seven hours of sick leave deducted from his accruals, valued at \$172.

We also found that six employees in four departments had insufficient documentation to support leave days taken because they did not submit any form of time records. Rather, the various department timekeepers recorded absences on calendars or time slips based on the employees' verbal requests or the timekeepers' observations. The department timekeepers then reported time taken when submitting monthly absence reports. These six employees took 497 hours of leave, valued at \$28,513, during the period tested.

As a result of these errors in recording leave time taken by employees, the City may be paying employees for time they are not entitled to.

Accuracy – Adequate controls and monitoring over payroll require that complete and accurate records be maintained. The Commissioners should verify time sheets/cards for accuracy before

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<sup>2</sup> See Appendix C, Audit Methodology and Standards, for details on our sample selection.

payroll is processed. Because the City does not have policies or written procedures for the payroll process, each department processes its respective payrolls differently. We examined payroll records for 46 employees<sup>3</sup> from 10 different departments for one payroll period in July 2013 and found minor discrepancies or errors. Specifically, two employees were overpaid a total of \$228 and one employee was underpaid \$13.

Although the dollar value of the discrepancies is minor, without complete and accurate payroll records, City officials cannot be sure that employees are receiving the amount of pay they are entitled to.

Approvals – Adequate controls and monitoring over payroll require that time records reflect hours worked and be signed by the employee. Time sheets/cards should be verified for accuracy by the various Commissioners before payroll is processed. The biweekly summaries require approval by the Commissioners.

We tested the same 46 employees' time sheets/cards to verify that the employees signed their respective time records. We found that 15 employees did not submit time records. Therefore, there was no time record signed by the employee; however, all payroll summaries were signed by the various Commissioners. The City paid the 15 employees \$53,339 for 1,344 hours without sufficient documentation for the sample we tested. Without properly completed, certified and approved time sheets, time cards or time records, the City cannot be sure that employees are receiving the amount of pay they are entitled to, and the City may be paying more than necessary in payroll costs.

## **Recommendations**

The City Council should:

1. Develop comprehensive written policies outlining City-wide requirements for employee time and attendance records.

The Comptroller should:

2. Segregate the payroll duties of authorization, processing and distribution. If proper segregation of duties is not practical, then effective oversight should be provided by someone independent of those duties. The independent party should periodically review payroll operations and activities.
3. Develop written procedures for each department to follow for recording employees' time worked and leave time earned and used.

<sup>3</sup> See Appendix C, Audit Methodology and Standards, for details on our sample selection.

**APPENDIX A**  
**RESPONSE FROM CITY OFFICIALS**

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

ERNEST D. DAVIS

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January 21, 2015

Ms. Tenneh Blamah  
Chief Examiner of Local Government and  
School Accountability  
State of New York  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
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**RE: Confidential Draft Report of Examination  
Payroll City of Mount Vernon, New York  
Report Number 2014M-347  
Period Covered: January 1, 2013 –April 21, 2014**

Dear Ms. Blamah,

We are in receipt of the above-referenced Draft Report together with your cover letter dated December 22, 2014 and the City of Mount Vernon respectfully submits its response to the auditor's findings. We would like to take this opportunity to thank the auditors for their professionalism and courtesies extended to all City departments at all times.

The City will be submitting a written corrective action plan within ninety (90) days of your letter pursuant to Section 35 of the General Municipal Law. As discussed at our meeting, some measures have already been implemented and others have been identified and will be implemented shortly.

In response to your draft Recommendations on Page 9 to the City Council, please be advised of the following:

Recommendation

1. Review the requirements of the Federal Fair Labor Standards Act concerning compensatory time accrual limits with the City's attorney and take appropriate action.

Response

The Law Department is currently reviewing the Federal Fair Labor Standards Act as it is applicable in the Police Department concerning past compensatory time accrual and the federally mandated limits on same. The Commissioner of Police has already placed the necessary limits on time accruals. We will address this issue fully and our course of action when we submit our corrective action plan.

Recommendation

2. Develop comprehensive written policies outlining City-wide requirements for employee time and attendance records.

Response

Time and attendance records are affirmed by individuals and their supervisors and/or department heads. The City Comptroller, Management Services and the Human Resources Department are internally reviewing all concerns raised. The City of Mount Vernon intends to place internal controls and strict guidance in place and perhaps will expand the use of the [REDACTED] or look at alternative methods of addressing the concerns. The City has already commenced examining a module of the [REDACTED] software. This software will allow the City to save time entering, accessing and managing employee data. There may be more effective methods and the City will examine same and report same in its corrective action plan.

See  
Note 1  
Page 13

The recommendations to the Comptroller and responses are as follows:

Recommendation

“3. Segregate the payroll duties of authorization, processing and distribution. If proper segregation of duties is not practical, then effective oversight should be provided by someone independent of those duties. The independent party should periodically review payroll operations and activities”.

Response

The Mount Vernon payroll processing system, currently and in the past, consisted of three separate components.

The authorization component of the payroll process occurs at the supervisory level of each department that submits the time sheets. The time sheets detail the number and classes of hours each employee should be paid. The commissioner or designated department supervisor is charged with the responsibility of ensuring that the information reported on the time sheet for each employee is accurate and attests by signature to its accuracy. The time sheet format is not accepted without signature and in fact requires the signature of each department’s commissioner or designated department head affirming the accuracy of the payroll information on the time sheets submitted.

The processing component of the payroll process occurs in the payroll department. The payroll administrator along with the payroll clerk reviews the timesheets submitted by each department to determine if the time sheets are properly signed before inputting the time sheet hours into the [REDACTED] computer program. The Payroll department personnel also compares the total hours per the computer generated payroll output to the manually prepared timesheets submitted by each department to insure that the inputting was correct.

The distribution of net pay is accomplished via two methods: direct deposit and manual check. The Finance department distributes the direct deposit statements for each employee paid by direct deposit and the manual checks generated for the applicable employee. The distribution process is done by the finance department staff independent of the payroll authorization and processing functions.

See  
Note 2  
Page 13

Recommendation

“4. Develop written procedures for each department to follow for recording employees’ time worked and leave time earned and used”.

Response

The City is in the process of developing a comprehensive system of time and record keeping.

In considering multiple options the City is discussing the purchase of an electronic system to record employee events such as date and time each employee arrives for work, leaves for and returns from lunch, etc. The Finance department is currently reviewing several electronic systems to determine which system will provide the preferred time keeping, recording, and controls needed to reasonably ensure the accuracy of the time keeping process. In addition, the system would link with [REDACTED] to record and track all employees’ leave time and accruals thereby centralizing the process. This system will ensure uniformity and consistency between City departments.

The Finance department is also instituting a process whereby it will check the validity of any and all changes to net pay for all employees. The process will include and not be limited to the following: for any change to net pay there must be a corresponding form of documentation to support such change. Thereby, quarterly tests will be performed and documented to provide evidence. For example, if an employee were to cease paying union dues, net pay would change and would automatically be selected for testing. Such test would lead back to the underlying documentation to support the reason for change. Other examples would follow the same pattern. The Finance department will continue to perform payroll payout tests on a semi-annual basis to further strengthen internal control procedures. As with any internal control environment, the Finance department will continue to monitor, assess and make any changes necessary to improve the overall system.

Please do not hesitate to contact me or any of my department heads with any concerns or questions that may arise concerning this response.

Very truly yours,

[REDACTED]  
Hina Sherwani

## **APPENDIX B**

### **OSC COMMENTS ON THE CITY OFFICIALS' RESPONSE**

#### Note 1

The recommendation City officials refer to regarding compensatory time has been deleted from the final report.

#### Note 2

Our conclusion was based on the lack of segregation of duties for the payroll administrator and clerk. The lack of segregation of duties and oversight allowed the payroll administrator and clerk to make undocumented changes to their withholdings. Our report calls for such duties to be separated from payroll processing or for City officials to institute additional oversight.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the City's accuracy of employee time and attendance and leave accruals. To accomplish our payroll-related objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed City officials and employees and reviewed collective bargaining agreements, Council resolutions and various reports to gain an understanding of the City's processing of payroll and maintenance of time and attendance and leave accrual records.
- We interviewed employees, department heads and Commissioners of the 10 departments selected for audit – Police, Fire, Public Works, Water, Recreation, Youth Board, Management Services, Finance, Law and City Clerk – and the Commissioner of Human Resources. We judgmentally selected these departments for review based on the size of their payrolls, control over the payroll process and information developed during our risk assessment. Because we judgmentally selected departments based on risk, the results of testing should not be projected to the entire population.
- We reviewed the payroll detail for the payroll administrator, a chief accountant and the payroll clerk due to the lack of segregation of duties in the payroll entry process. We included the chief accountant because of his role in the payroll process and for comparative purposes to the payroll administrator's and payroll clerk's payrolls.
- We judgmentally selected the months of July and August 2013 for leave testing based on our expectation that those months were more likely to have leave use. We judgmentally chose 36 employees based on leave use during the test period. Because we judgmentally selected the months and employees to be tested, the results of our testing should not be projected to the entire population.
- We obtained the official payroll registers for the payroll period tested and employee leave absence reports for June through September 2013 for all employees of the 10 departments tested.
- We obtained and reviewed departmental time and attendance records, leave request forms, paper and wall calendars, electronic calendars and spreadsheets for comparison to payroll summaries and registers and leave absence reports for the periods tested.
- We conducted a payroll payout on October 31, 2014 to ensure payroll was paid to employees. We checked employees' identification and had employees sign for receipt of their checks/direct deposit stubs.

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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