



Wantagh Fire District Payroll

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2012

2013M-176



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
PAYROLL	5
Leave Accruals	5
Payroll Process	6
Recommendation	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

Dear Fire District 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 Board of Fire Commissioners 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 Wantagh Fire District, 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 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 Wantagh Fire District (District) is a district corporation of the State, distinct and separate from the Town of Hempstead and Nassau County in which it is located. The District covers 13 square miles, and services approximately 18,000 households and 700 businesses. The District's 2012 expenditures were approximately \$6.1 million, funded primarily with real property taxes, grants from local governments, and fire protection contracts.

An elected five-member Board of Fire Commissioners (Board) governs the District. The Board is responsible for the District's overall financial management. The District Treasurer (Treasurer) is the chief fiscal officer and is responsible for receiving and disbursing District moneys and maintaining records summarizing such activity. The District's payroll included 10 full-time and six part-time employees.

Objective

The objective of our audit was to examine the District's internal controls over payroll. Our audit addressed the following related question:

- Are District employees being accurately compensated and accruing leave that they are entitled to?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, control environment, cash receipts and disbursements, payroll, procurement, capital assets and inventories, length of service award program (LOSAP), and information technology (IT). Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the payroll area, and therefore we examined internal controls over payroll for the period January 1, 2012, through December 31, 2012.

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 District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Fire District officials

agreed with our findings and recommendation and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the Town Law, 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. 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 Board should make the CAP available for public review in the District Secretary's office.

Payroll

The Board is responsible for establishing internal controls over payroll to ensure that employees are paid wages and salaries and provided benefits to which they are duly entitled. Good controls require implementing effective policies and procedures to provide reasonable assurance that assets are properly safeguarded; payroll transactions are authorized, recorded, and reported properly; work performed is monitored and reviewed; and established leave accrual limits are adhered to.

Internal controls over payroll ensured that the District employees were paid only approved salaries and wages. However, although the Board adopted a leave accrual policy, District officials did not enforce the policy's maximum accumulated leave limits.¹ Four of the six employees' leave balances we reviewed exceeded the policy's maximum allowed limits. As a result, there is an increased risk that District employees could receive, use, or get paid for more leave than the amounts allowed in the District's policy.

Leave Accruals

Effective leave accrual procedures should ensure that time off for vacation and sick leave is accrued in accordance with Board-approved policies so that employees accrue leave only to which they are entitled. The Board's policy stipulates the number of hours that will be accrued each pay period based upon years of service and the maximum leave hours that may be accumulated. Specifically, an employee can accrue a maximum of 720 hours of vacation and 1,600 hours of sick leave. Further, upon service termination, unless discharged for cause, an employee is entitled to receive payment for any accumulated leave, up to a maximum of 75 days.

Because District officials did not enforce the Board-adopted policy's accrual limits, we reviewed the leave records for the six employees with the highest accrued vacation leave balances as of December 31, 2012. Four of the six employees had leave balances that exceeded the maximum limits allowed by the District's policy. These four employees accrued 3,430 hours of vacation leave valued at more than \$139,800, and three of these four employees had 1,120 hours of sick leave valued at about \$39,000 as shown in the following tables:

¹ The Board's leave policy specifies the maximum amounts employees can earn for sick and vacation leave.

Table 1: Excess Vacation Leave Hours^a				
	Accrued Vacation Leave	Maximum Limit	Excess Vacation Leave	Value of Excess Leave
Employee 1	1,702	720	982	\$31,002
Employee 2	1,246	720	526	\$18,726
Employee 3	1,728	720	1,008	\$47,255
Employee 4	1,634	720	914	\$42,848
Totals	6,310	2,880	3,430	\$139,831

^a As of December 31, 2012

Table 2: Excess Sick Leave Hours^a				
	Accrued Sick Leave	Maximum Limit	Excess Sick Leave	Value of Excess Leave
Employee 1	2,354	1,600	754	\$23,804
Employee 2	1,774	1,600	174	\$6,194
Employee 3	1,792	1,600	192	\$9,001
Employee 4	928	1,600	0	0
Totals	6,848	6,400	1,120	\$38,999

^a As of December 31, 2012

Although we did not find any other discrepancies in recording or calculating leave accrual balances and none of these employees received any excessive payments, when officials do not enforce the Board-adopted policy's leave accrual limits there is an increased risk that employees may use or get paid for leave time above the amounts authorized by the policy. Further, the District could face disruptions in its regular operations due to shortages of personnel and overtime costs if an employee with excess leave balances decides to exhaust them prior to termination or retirement.

Payroll Process

The primary objective for internal controls over payroll is to ensure that employees are paid for hours for which they have worked. The Board is responsible for establishing and approving all wages paid to District employees. It is imperative that the Board establish internal controls to ensure that Board-approved wages are processed and paid correctly. Additionally, when employees work beyond their normal working hours, additional payroll and supervisory controls are necessary to help ensure such overtime is authorized and payments are accurate.

District officials established and implemented adequate internal controls over payroll, including specific procedures to ensure that

the individuals reported and paid through the payroll process were paid only approved salaries and wages. Each employee's supervisor, the Superintendent, and the Commissioner in charge of personnel approve employee timecards. The Superintendent then prepares the payroll through a third-party payroll provider for processing. After the District's third-party payroll provider processes the District's payroll, the Treasurer reviews and approves it when he records the payroll in the District's financial software.

We reviewed payroll payments² made to seven employees who were paid \$141,262³ by comparing the amounts these employees were paid from the payroll registers to the hours reported and approved on their timesheets, and the Board-approved rates as shown on salary schedule. These payroll payments were accurate and properly supported with appropriate and sufficient documentation, except for minor deficiencies that were discussed with District officials during our audit fieldwork.

Recommendation

1. The Board should take immediate steps to correct employees' maximum leave accruals based on the limits placed on accumulated leave balances as established by the Board-approved policy.

² These payroll payments were paid from July 1, 2012, through September 30, 2012. See Appendix B for information on the sample selection.

³ These employees worked 3,898 hours and were paid \$123,756 in regular earnings and \$17,506 in overtime earnings.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Wantagh Fire District

BOARD OF FIRE COMMISSIONERS

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WANTAGH, NEW YORK 11793

TEL. 516 785-1774

FAX 516 785-1041



September 3, 2013

Ira McCracken, Chief Examiner
Division of Local Government and
School Accountability
110 State Street
Albany, New York 12236

Dear Mr. McCracken:

The Wantagh Fire District acknowledges receipt of the Draft Audit report issued by your office for the period of January 1, 2012 thru December 31, 2012. The Board of Fire Commissioners has reviewed the report and findings presented by your auditors and agree with their findings. We are revisiting our policy and preparing a corrective action plan that will be forward to your office.

The Board of Fire Commissioners wishes to thank you and your staff for the professional, courteous manner in which the audit was performed. The Board takes their responsibility very seriously, and the discussions during our audit have been helpful to improve our operations and maintain the public trust.

Sincerely,

Craig Craft
Chairman
Board of Fire Commissioners

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, control environment, cash receipts and disbursements, payroll and personal services, procurement, capital assets and inventories, length of service award program, and information technology.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the District's payroll process and leave accruals for further audit testing.

To accomplish our audit objective and obtain relevant audit evidence for the period January 1, 2012, through December 31, 2012, our procedures included the following:

- We interviewed District officials to gain an understanding of the District's operations.
- We reviewed the District's policies and procedures, Board minutes, and supporting documentation provided by District officials that were related to payroll and leave accruals.
- We selected the six employees with the highest vacation leave balances as of December 31, 2012, and recomputed the leave balances for vacation and sick leave as of that date, and compared those balances with the District's recorded balances. We used the employees' pay rates as of December 31, 2012, to determine the value of the excess days accrued over the leave limits established by the District.
- We selected the employee with the highest earnings from each of the District's seven employee categories⁴ and compared all their payroll payments for the period July 1, 2012, through September 30, 2012, with the payroll records, timesheets, and Board resolutions.

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.

⁴ The District's seven employee categories are Dispatchers, Firehouse Maintainer Dispatcher, Firehouse Maintainers, Mechanics, Cleaners, Senior Firehouse Maintainer, and Management.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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