



Town of Erwin

Internal Controls Over Payroll

Report of Examination

Period Covered:

January 1, 2009 — March 4, 2011

2012M-47



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2012

Dear Town 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 Town 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 Town of Erwin, 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 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 Town of Erwin (Town) is located in Steuben County and has approximately 8,037 residents according to the 2010 Census. It encompasses the Village of Painted Post and provides various services to its residents including highway maintenance and improvements, snow removal, youth recreation activities, and general government support. The Town's budgeted appropriations for 2011 were \$7.2 million, which were funded primarily by real property taxes, sales tax, and State aid. The Town is governed by a Town Board (Board) that consists of the Town Supervisor (Supervisor) and four Board members. The Supervisor is the Town's chief fiscal and executive officer, and the Town Manager (Manager) is the chief administrative officer and is responsible for the Town's daily operations.

The Town employed 36 full-time, seven part-time, and 13 seasonal employees at a cost of \$2.7 million in 2010. Payroll is the Town's most significant operating cost and represented approximately 38 percent of total budgeted appropriations for 2011. The Board is responsible for setting wages and benefits and for formalizing them in collective bargaining agreements (CBAs), individual employment contracts, and employee policies. The process for recording, maintaining, and approving time and leave records for employees varies within each department. The bookkeeper and payroll clerk are responsible for preparing and submitting the quarterly payroll reports to the State and Federal governments.

The Town of Erwin Community Development Agency (CDA) is an urban renewal agency, which is a separate legal entity from the Town. The CDA's governing board (CDA Board) comprises the same individuals as the Town Board.

Objective

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

- Did Town officials ensure that internal controls over payroll were adequately designed and operating effectively?

Scope and Methodology

We examined internal controls over the Town's payroll processing for the period January 1, 2009, to March 4, 2011.

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 C of this report.

**Comments of
Local Officials and
Corrective Action**

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

The Board 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 Board to make this plan available for public review in the Clerk's office.

The Payroll Process

The Board is responsible for designing internal controls for payroll processing that consist of policies and procedures to guide employees in their day-to-day duties and ensure that employee compensation is specifically defined and authorized. The primary objective for internal controls over payroll processing is to ensure that employees are properly paid the wages and salaries and provided the benefits to which they are entitled.

The Town's internal controls over payroll processing were not properly designed or operating effectively. The Board failed to provide proper oversight of the Town's payroll process and delegated responsibilities to the Manager without providing adequate oversight of the duties that she performed. Five Town employees were misclassified as employees of the CDA, which the Board was aware of, but did nothing to remedy. The Town lacked written policies and procedures for managing the payroll process, and the current employee payroll policy is incomplete and inconclusive. These missing and confusing policies allowed three employees to receive \$25,594 in pay raises without Board approval, three managers to be paid \$15,000 in improper bonuses, and the Town Clerk to receive improper payments totaling \$1,000. In addition, we identified a number of errors relating to leave accruals and compensatory time balances.

Board Oversight

A fundamental part of an effective control system is setting the "tone at the top" which requires the Board to demonstrate a concern for good management and to follow appropriate procedures. The Board must take an active role in ensuring that payroll policies, CBAs, and employee contracts are current and address salaries, wages, and all employee benefits to provide clear guidance and direction for those who are responsible for executing payroll activities. If the Board chooses to direct another individual to assume its responsibilities in adjusting employees' pay rates, it is incumbent upon the Board to follow State law when doing so.

The Board failed to take action to ensure that Town employees were properly classified as Town, and not CDA, employees even after this misclassification was brought to its attention in 2009.¹ The Board also failed to ensure that the Town's payroll and employee policies were current and comprehensive. This led to the payroll clerk having too much control over the payroll process without adequate management oversight and to employees improperly receiving benefits² and

¹ Refer to the Misclassification of Employees section for further information.

² Refer to the Policies and Procedures section for further information.

earning leave accruals they were not entitled to and using leave accruals that they had not properly accrued.³ Also, the Board did not properly delegate its responsibilities to the Town Manager because it failed to properly adopt a local law that would allow the Town Manager to establish and approve employee salary and hourly wages within a range set by the Board. Because the Board did not provide oversight of the Manager's work by periodically reviewing salaries to ensure that they matched Board-approved amounts, the Board was unaware that three employees were receiving salaries, set and approved by the Manager, that were not authorized by the CBA.⁴

Management's failure to provide oversight of those tasked with supervisory responsibilities and conform to established laws and controls creates an environment where there is no expectation that officials will require accountability to the public for the use of Town resources, leaving taxpayer moneys vulnerable to waste, abuse, and fraud.

Misclassification of Employees

According to General Municipal Law (GML), employees of an urban renewal agency may not be used to perform work for municipal departments, even if those services are reimbursed by the municipality.

We reviewed employee wage and tax statements (W-2 forms) and quarterly payroll tax reports for the CDA and Town and found that the Town Manager's administrative assistant, Town Supervisor's bookkeeper,⁵ Town code enforcement officer, code enforcement deputy, and the secretary for the code enforcement office were not properly reported as Town employees, but were instead reported as CDA employees. Because these individuals spent the majority of their time performing governmental functions on behalf of the Town, and because the CDA was funded directly by inter-fund transfers from the Town's general town-wide, sewer and water funds,⁶ these individuals should be considered employees of the Town and not the CDA. The Town and CDA Boards were aware that these Town employees were misclassified as CDA employees, but did not take action to remedy it. In 2009, the New York State Authority Budget Office conducted a review of the CDA and concluded that these individuals were misclassified as CDA employees.

³ Refer to the Leave Accruals and Compensatory Time sections for further information.

⁴ Refer to the Pay Rate Approval/Authorization section for further information.

⁵ The Town Supervisor's bookkeeper also was the CDA's executive director, but was not a member of the CDA's Board.

⁶ In 2009, transfers totaled \$158,050 from the general town-wide fund, \$31,000 from the sewer fund, and \$27,000 from the water fund. In 2010, transfers totaled \$176,914 from the general town-wide fund, \$33,500 from the sewer fund, and \$29,000 from the water fund.

Policies and Procedures

An effective system of internal controls over payroll processing consists of written policies and procedures that describe employee responsibilities in preparing and disbursing payroll and provide written authorization for salaries, wages, and fringe benefits. If it is not feasible to segregate duties over the payroll process, Town officials must implement mitigating controls, such as having someone independent of the process perform a review of and certify the completed payrolls. Payroll policies, CBAs, and/or individual employee contracts must stipulate each employee's entitlement to the accrual, use, and payment of leave time.

The Board has not established any written payroll policies or procedures that describe employee responsibilities when preparing, approving, or disbursing payroll. As a result, the payroll clerk has incompatible duties within the payroll process that could be exploited, without being detected. With the exception of performing monthly bank reconciliations and maintaining leave records, the payroll clerk handles all other aspects of the payroll process, including adding and deleting employees, entering salary amounts, pay rates, and hours worked into the payroll software; preparing bi-weekly payrolls; transferring funds to-and-from bank accounts; and preparing and distributing paychecks.

Although the Manager certifies the payroll, she also sets salary rates; therefore, she is not separate from the payroll process. Therefore, her certification of the payroll does not provide a mitigating control on the incompatible duties of the payroll clerk. Because she sets salary rates and then approves the payroll after the payroll clerk has completed it, the Manager could set improper salary rates and then approve the unauthorized amounts in her role of certifying the payroll without the Board's detection.

In addition, the current employee payroll policy is incomplete and inconclusive. Although the policy is a consolidation of old employee policies intended for different classes of employees,⁷ it is inadequate because it does not include or address all the benefits described in the previous policies and amendments, which employees are still receiving. Therefore, employees may have improperly received benefits that are not provided for in the employee payroll policy. For example, the policy does not clearly define the portion of health insurance premiums that employees should be paying, and it does not provide guidance to employees for the accrual of leave time. As a result, during 2009 and 2010, the Town may have improperly paid \$845 in health insurance costs for Town officials and retirees that should have been paid by the officials and retirees. Also, because employees did

⁷ Water, sewer, salaried, administrative, elected, and non-elected employees

not have guidance for properly accruing leave time, they improperly received and used compensatory time and improperly tracked or neglected to track their leave time, and department supervisors did not always review and approve employee leave time records.⁸

When terms and conditions of employment are not clearly defined and articulated to those responsible for executing payroll activities, it can lead to uncertainty about payments and benefits and the overall rights, duties and responsibilities of employees and employers. This uncertainty could further result in unnecessary costs and/or grievances or litigation for a local government.

Pay Rate Approval/ Authorization

The Board has the responsibility to establish and approve all salary and hourly wages by position or as part of a CBA. Also, the Board must provide oversight of the Manager's work by periodically reviewing salaries to ensure that they match Board-approved amounts. The Board currently has a CBA for highway department employees, an employment agreement with the Manager, and an employee policy for Town Hall,⁹ CDA, and water and sewer employees that describe the authorized salaries, wages, and employee benefits for these employees.

For the period January 1, 2009, to December 31, 2010, we randomly selected 13 employees to determine if they were paid according to amounts indicated in CBAs, or approved by the Board. We found that three of the 13 employees received \$25,594 more than was authorized in their CBA. Although the three employees' hourly rates were described in the CBA, the Manager increased the hourly rates of these employees to that of the other employees in the same title due to "exceptional performance." However, the CBA does not allow for these expedited increases, and Town officials were unable to provide us with formal written evaluations that would support the claim of "exceptional performance."

In addition, the Board was unaware that these three employees were receiving salaries that were not authorized by the CBA because the Board did not provide oversight of the Manager's work by periodically reviewing salaries to ensure that they matched Board-approved amounts. The Manager had given the payroll clerk a spreadsheet to use when entering salary and hourly pay rates for employees into the computerized payroll program and directed the payroll clerk to use the amounts listed on the spreadsheet instead of the amounts listed in the CBAs.

⁸ Refer to the Leave Accruals and Compensatory Time sections for further information on these findings.

⁹ Town Hall employees include the elected Town Clerk and the appointed Highway Superintendent and deputy highway superintendent.

The Manager exceeded her authority when she adjusted these employees' pay rates. The Manager told us that she can set or adjust salaries as long as they do not exceed the amount approved by the Board in the salary schedule. Town Law and Municipal Home Rule Law indicate that the Board's duty of fixing personnel compensation cannot be transferred without the adoption of a local law that is first subject to a mandatory public referendum. Although the Board had adopted a local law to allow the Manager to set wages within a range set by the Board, it did not hold the mandatory referendum when adopting the law, even though it was aware of this requirement. In March 1995, our office completed an audit of the Town that communicated this requirement to the Board, but the Town took no action to comply with those Laws.

Improper Gifts of Public Moneys

The Town does not have the authority to provide Town employees with additional compensation as bonuses for services already rendered and for which a fixed salary was already paid, except pursuant to a CBA. Providing Town employees with additional compensation as a reward for services already rendered and fully compensated, such as a bonus or a retroactive pay increase, generally constitutes a mere gratuity and an improper gift of public moneys.¹⁰

We reviewed lump-sum payments totaling \$16,000 that were made to four individuals during our audit period to determine if they were properly authorized and supported and found that all of the payments were improper gifts of public moneys that the Town should recoup. The Manager, Highway Superintendent, and chief waste water treatment plant operator each received an improper \$5,000 bonus payment in 2010. The three employees received the bonus payments for their additional work on the Town highway building and a water project. Because the Town does not have the authority to provide additional compensation to employees as a bonus for services already rendered and fully compensated, these bonuses constitute an improper gift of public moneys.

Also, elected officers like a Town Clerk receive a fixed salary for the office as an incident of being elected to the office.¹¹ The absence of the elected officer from his or her duties on account of sickness, vacation, or personal reasons generally will not deprive the officer of his or her salary. However, we found that the Town Clerk received payments totaling \$1,000 for 2009 and 2010 unused sick leave compensation and longevity increments. Because the Town Clerk is an elected position,

¹⁰ For further information, refer to the 2000 Opinions of the State Comptroller, No. 2000-9, p. 25, and 1983 Opinions of the State Comptroller, No. 83-158, p. 199.

¹¹ In the absence of a local law, subject to permissive referendum, the Town Clerk's salary cannot exceed the amount published in the notice of the budget hearing.

she was not entitled to accrue sick leave credits. Also, the provisions of the employee policy do not pertain to the Town Clerk, and she may not receive any additional compensation afforded to other Town employees for longevity. Therefore, the payments totaling \$1,000 constitute an improper gift of public moneys.

Leave Accruals

Paid leave time is an employee benefit generally granted to Town employees pursuant to CBAs, employment contracts, policies, or Board resolutions. Generally, employees earn a fixed number of days each year for vacation, illness, and personal use. Because the employee policy allows Town employees to receive cash payments for a portion of their accrued vacation and sick leave time at the end of the year, it is especially important to maintain accurate leave accrual and usage records and regularly reconcile the leave balances.

The Town does not have written policies and procedures related to the verification, approval, and monitoring of unused leave time. The payroll clerk does not record beginning or ending leave balances or leave time usage in the computerized payroll application, but relies on each department to maintain accurate balances of employees' available leave time. Department heads maintain their own leave time, but Town officials do not provide oversight to ensure that these leave time balances are accurate. As a result, department heads do not consistently maintain supporting records for leave accrual and usage and, in some cases, this documentation is not maintained at all.

We reviewed the leave time accrual records for four highway department employees, four salaried (Town Hall) employees, two water/sewer employees, and two CDA employees¹² and found that, in 2009, three of these employees inappropriately earned 17.25 days of leave accrual totaling \$2,178; in 2010, one employee inappropriately earned five days of leave accrual totaling \$652. It should be noted that the payroll clerk inappropriately earned 21 of the 22.5 days of leave accruals. Also, in 2009, four employees used 18 days of leave time totaling \$3,258 to which they were not entitled and, in 2010, four employees used 19 days of leave time totaling \$3,723 to which they were not entitled. At the end of 2009, two employees had annual leave balances totaling \$3,226 that they were not paid for and, in 2010, one employee had an annual leave balance totaling \$1,339 for which he was not paid.

Without accurate leave accrual and usage records, employees improperly earned leave accruals totaling \$2,830 that they were not entitled to, used leave accruals totaling \$6,981 that they had not properly accrued, and did not receive annual payments totaling \$4,565 for unused leave balances to which they were entitled.

¹² Refer to Appendix B for further information on the sample selection.

Compensatory Time

Compensatory (comp) time off is paid leave that is earned and accrued by an employee in lieu of immediate cash payment for overtime work. As with overtime, good business practices require that department supervisors formally approve all comp time before employees perform the work, document the reasons for the comp time, and maintain adequate records. The Town's comp time policy requires employees not covered by the CBA to use or be paid for comp time by the end of the following month after they earned it. We were told by Town officials that the policy does not allow employees to roll over comp time balances from month-to-month. However, if employees have a comp time balance at the end of the month and are unable to use it, they are eligible to have the accumulated comp time balance paid to them in a lump-sum payment at the end of the month following the month in which they earned the time. Employees were responsible for maintaining their accrual and usage of comp time on their own time sheets, and their supervisors were responsible for reviewing and approving the employees' comp time accrual and usage.

The Town and employees are not complying with the comp time policy. Although we were told that the policy requires comp time to be used within the same month that it was earned, and it does not allow employees to roll over comp time balances from month-to-month, we found that employees were rolling over accrued comp time balances from month-to-month. We also found that the Town was not always paying employees for unused comp time balances to which they were entitled.

We randomly selected eight employees to determine if they were properly accruing comp time and whether their accrual and use of comp time was properly supported and documented. We found that seven did not have supervisory approval on their time cards for their accrual and usage of comp time. In addition, six employees were improperly carrying forward comp time balances from month-to-month, instead of the Town paying for the unused comp time balances. Three of the eight employees had comp time balances totaling \$5,970 at the end of 2009 and \$4,211 at the end of 2010. It is our understanding that these total balances should have been paid to the employees in incremental amounts during the months after the employees had accrued the comp time. However, because employees believed that comp time was required to be used by the end of the fiscal year, they did not report these balances to Town officials to be paid as unused comp time, and the employees deleted these balances from their time cards.

Also, we found that four employees had made errors in carrying forward balances and calculated comp leave improperly. Two

employees used a small amount of comp time that they had not earned, and Town officials were unable to provide us with adequate documentation for one employee's comp time balance, because the employee's time records were inadequate.

Because Town employees and officials were not complying with the Town's comp time policy, supervisors were not always reviewing and approving employees' accrual and usage of comp time, and employees were not paid approximately \$10,181 in comp time balances that they had earned but were unable to use.

Recommendations

1. The Board should maintain a control environment which, as the primary element in an adequate system of internal control, fosters competence and commitment to compliance with relevant laws and Town policies. The Board also should monitor the effectiveness of the control environment.
2. The Board should ensure all Town employees are accounted for within the Town's financial operations.
3. The Board should establish written policies and ensure that Town officials develop procedures for the payroll and personnel functions. These policies and procedures should adequately segregate the payroll function, ensure salaries and benefits are clear, and ensure adequate recordkeeping and oversight of payments, raises, and accrual balances.
4. The Town should consult with the Town attorney about possible recovery of any improperly paid health insurance premiums.
5. The Board should adequately oversee the Manager's work by periodically reviewing salaries to ensure that they match Board-approved amounts.
6. The Board should comply with Town Law and Municipal Home Rule Law by ensuring that voters are given their right to decide when transferring Board powers to the Manager.
7. The Board should consult with the Town attorney about possible recovery of unauthorized lump-sum payments.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



September 14, 2012

Mr. Edward V. Grant Jr., Chief Examiner
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RE: Draft Report of Examination 2012M-047 - Response

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EMERGENCY # 911

BOARD OVERSIGHT

The Town has established Employment Practices for non-union employees which are adopted by the Town Board. The Town Board has periodically updated these practices by adoption of amendments.

The Town agrees that there should be a comprehensive document, consolidating all amendments and clarifying procedures for requesting, reporting and using leave and compensatory time. The Town will establish such documents for adoption by the Town Board.

Employees may only be entitled to earn compensatory time by prior approval of the department head/supervisor. Payment is not made for any time not so authorized.

All Collective Bargaining Agreements are adopted by resolution of the Town Board.

All salaries are adopted annually by resolution of the Town Board. All employee compensation was approved by the Town Board in accordance with proper governance procedures and NYS case law which considered and refined NYS Comptroller Opinions relative to compensation in respect of additional work performed. All employee compensation was paid in respect of work performed, as verified by the Attorney for then Town and external, CPA auditor. The Town agrees that elected officials are not entitled to longevity or pay for unused sick leave. The Town will discontinue such payments to elected officials.

The Town has a four-way check and balance system for payroll processing. The Town Board specifies the salaries of each position on the Salary Schedule as adopted annually by Town Board resolution. The Town Manager prepares the payroll information for data entry by the payroll clerk based on the adopted Salary Schedule. The information is entered by the payroll clerk and the Town Manager certifies the salary data entry and the payroll, based on the timesheets as verified by the immediate supervisor/department head. The Town Supervisor has direct supervision of the payroll, as the Town Supervisor reviews each bi-weekly payroll check prior to its distribution. The transfers of funds by the payroll clerk are reviewed by the Bookkeeper. All quarterly reports are

See
Note 1
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See
Note 2
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prepared and balanced by the Bookkeeper, which process ensures that no improper transfers or payments were made.

All Town employees as well as employees of all Agencies and Districts of the Town are classified as the Town Board has, through its oversight as evidenced by Resolutions and Local Laws, determined is appropriate. All operations of the Town and its Agencies and Districts are thoroughly and specifically accounted for. All appropriate inter-agency funds transfers are made upon Town and Agency Board review and approval.

See Note 3 Page 19

POLICIES AND PROCEDURES

The Town has established Employment Practices for non-union employees which are adopted by the Town Board. The Town Board has periodically updated these practices by adoption of amendments.

The Town agrees that there should be a comprehensive document, consolidating all amendments and clarifying procedures for requesting, reporting and using leave and compensatory time. The Town will establish such documents for adoption by the Town Board.

The Town of Erwin recouped money from the CSEA Employee Benefit Fund for eye insurance premiums for an elected official where the coverage had been cancelled by the Town but the Fund failed to cancel the coverage. Although the Town requires advance payment of premiums, a retiree became ill and died prior to paying for eye insurance premiums and the Town was unable to recoup that cost from the estate. As recommended by the Comptroller, the Town will take steps to cancel coverage immediately upon non-payment of premiums.

The Town has a four-way check and balance system for payroll processing. The Town Board specifies the salaries of each position on the Salary Schedule as adopted annually by Town Board resolution. The Town Manager prepares the payroll information for data entry by the payroll clerk based on the adopted Salary Schedule. The information is entered by the payroll clerk and the Town Manager certifies the salary data entry and the payroll, based on the timesheets as verified by the immediate supervisor/department head. The Town Supervisor has direct supervision of the payroll, as the Town Supervisor reviews each bi-weekly payroll check prior to its distribution. The transfers of funds by the payroll clerk are reviewed by the Bookkeeper. All quarterly reports are prepared and balanced by the Bookkeeper, which process ensures that no improper transfers or payments were made.

PAY RATE APPROVAL/AUTHORIZATION

The Town Board specifies the salaries of each position on the Salary Schedule as adopted annually by Town Board resolution. The Town Board receives the Tentative Salary schedule with the Tentative Budget no later than September 30 of each year. The Town Board then receives the Preliminary Salary schedule with their packet which is reviewed in detail with the proposed budget at the Special Town Board meeting in October, held primarily for the purpose of reviewing the annual budget. The Town Board receives a final version of the Salary Schedule which the Board adopts by separate resolution at their meeting in November.

All Collective Bargaining Agreements are adopted by resolution of the Town Board.

IMPROPER GIFTS OF PUBLIC MONEYS

All salaries are adopted annually by resolution of the Town Board. All employee compensation was approved by the Town Board in accordance with proper governance procedures and NYS case law which considered and refined NYS Comptroller Opinions relative to compensation in respect of additional work performed. All employee compensation was paid in respect of work performed, as verified by the Attorney for then Town and external, CPA auditor. The Town agrees that elected officials are not entitled to longevity or pay for unused sick leave. The Town will discontinue such payments to elected officials.

LEAVE ACCRUALS

The Town agrees that the Employment Practices for non-union employees and all subsequent amendments should be compiled into a comprehensive document clarifying procedures for requesting, reporting and using leave and compensatory time. The Town will establish such documents for adoption by the Town Board.

COMPENSATORY TIME

The Town agrees that the Employment Practices for non-union employees and all subsequent amendments should be compiled into a comprehensive document clarifying procedures for requesting, reporting and using leave and compensatory time. The Town will establish such documents for adoption by the Town Board.

Mr. Edward V. Grant Jr., Chief Examiner
September 14, 2012
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The Town agrees that the Employment Practices for non-union employees and all subsequent amendments should be compiled into a comprehensive document clarifying procedures for requesting, reporting and using leave and compensatory time. The Town will establish such documents for adoption by the Town Board.

The Town of Erwin will file a separate Corrective Action Plan in response to the specific Recommendations.

Sincerely,

David B. Erwin
Town Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

While generally employee compensation was adopted and paid in accordance with the Town Board's authorization, our findings reported on those instances where this was not the case. First, the Town Manager exceeded her authority by authorizing an increase in the compensation of three individuals that were not subject to the terms of the CBA. If the Town Board wishes to delegate this responsibility, it should adopt a local law subject to a mandatory referendum. Secondly, the Town inappropriately paid retroactive bonuses to the Town Manager, Highway Superintendent, and chief waste water treatment plant operator. Lastly, the Town inappropriately paid the Town Clerk for longevity increments and unused sick leave. Combined these payments exceeded \$40,000.

Note 2

An effective review of the payroll by the Supervisor could be a mitigating control if the review includes a close examination of payees, pay rates, hours worked, and unusual payroll items. Such a review should detect the errors that we discussed in this report. At the time of our audit, such a review was not being performed.

Note 3

We disagree, as did the New York State Authority Budget Office. The Town Board has not properly classified the employees identified in our finding.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to determine whether internal controls over payroll processing were appropriately designed and effectively operating. To accomplish our objective, we examined payroll and personnel records for the period January 1, 2009, to March 4, 2010, and analyzed the internal controls for payroll processing and personnel issues.

To achieve the objectives of this audit and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate Town officials and employees to understand what procedures the Town used to collect data for payroll processing.
- We reviewed payroll policies and procedures for adequacy. We reviewed the minutes of the Board's proceedings for resolutions for payroll policies and procedures, because the payroll policies were not dated.
- We reviewed W-2 summaries to determine how many employees the Town employed during our scope period. Because the Manager's administrative assistant and Supervisor's bookkeeper were not included in these summaries, we inquired of Town officials and were told that these individuals and three others were reported by the CDA.
- To determine if CDA employees were being reported properly, we requested job duty descriptions, interviewed Town employees and officials, reviewed the Authority Budget Office's review of the Town of Erwin, obtained OSC's legal opinion issued in 1978 (78-294-A), and reviewed Town Law and GML related to urban renewal agencies. In addition, we reviewed the 2009 and 2010 financial statements for both the CDA and the Town. We also reviewed the Town's 2009 and 2010 annual update documents that the Town submitted to OSC and determined the funding source of the CDA employees' salaries and benefits. Because we determined that the CDA employees were Town employees, we included them in our sample populations for all payroll tests conducted.
- For the period January 1, 2009, to December 31, 2010, we randomly selected 13 employees by selecting every fifth individual, starting with the third employee from the alphabetical listing, to determine if they were paid according to amounts described in CBAs or by Board approval.
- To test mandatory and voluntary deductions, we selected every tenth employee, starting with the second employee on the payroll summaries dated July 17, 2009, and October 22, 2010, to determine if employee withholdings were authorized and recorded accurately.
- We selected every fifth payroll in 2009 and 2010 to determine if the Manager certified payrolls.
- To test leave accruals, we selected every other employee (in alphabetical order) from each employee policy and/or contract within the Town and reviewed leave records that were

available for the 2009 and 2010 fiscal years, except for the records of the Manager who did not keep adequate time records or maintain leave balances. We then determined if leave time was properly requested, approved, and earned in accordance with contracts or other authorizations.

- To test compensatory time, we selected every other employee (in alphabetical order) from each employee policy and/or contract within the Town and reviewed their comp time usage and accrual for the 2009 and 2010 fiscal years. We then determined if comp time was earned and used according to the applicable employee policy and/or contract and if adequate records were maintained. In addition, we documented whether supervisory approval was obtained.

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

APPENDIX D

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