



Town of Wawarsing Payroll and Leave Accruals

Report of Examination

Period Covered:

January 1, 2011 — August 31, 2012

2013M-202



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

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 Board 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 Wawarsing, entitled Payroll and Leave Accruals. 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 Wawarsing (Town) is located in Ulster County, covers approximately 134 square miles, and has a population of approximately 13,000. The Town Board (Board) comprises four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the general management and control of the Town's financial affairs, and provides guidance through the adoption of resolutions, policies, and procedures. The Supervisor is the Town's chief executive officer and is responsible for the general administration, coordination, and supervision of Town operations. The Town Comptroller (Comptroller) is responsible for maintaining the Town's financial records, including the payroll function. The payroll clerk performs the payroll processing function.

The Town's total budget for fiscal year 2013 was approximately \$5.7 million for the general fund and \$3.6 million for the highway fund. The Town employs approximately 75 permanent employees and 70 seasonal workers. Payroll expenditures totaled about \$3.1 million in both 2011 and 2012.

Objective

The objective of our audit was to determine the accuracy of the amounts paid to employees through the Town's payroll and the accumulation and use of leave accruals. Our audit addressed the following related question:

- Did Town officials ensure that employees were paid correctly and leave accrual records were accurate?

Scope and Methodology

We examined internal controls over the Town's payroll processing and leave accruals for the period January 1, 2011, to August 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 is 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated that they planned to take, or have already taken, corrective action.

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.

Payroll and Leave Accruals

Payroll and related employee benefit costs are by far the largest component of nearly every local government budget. 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 Board did not develop hiring policies and payroll procedures for managing the Town's payroll process. As a result, 60 employees began work and were paid \$28,210 between February and June 2012 prior to the Board's approval of their employment and pay rates. Further, Highway employees were paid \$1,413 for time not worked when they left work earlier than their scheduled time, and one employee earned leave accruals to which she was not entitled. In addition, we found that Highway employees were overpaid \$1,861 due to incorrect pay rates. As a result, Town officials do not have adequate assurance that employees are paid correct amounts.

We also found that the Board failed to establish uniform and consistent procedures for employees to record the request, approval, and use of leave. As a result, leave records were not accurately maintained and may have resulted in employees receiving payment for leave time to which they were not entitled. Finally, payments totaling \$8,519 were made for compensatory time without the Board's written approval.

Policies and Procedures

The Board must establish hiring and payroll policies to ensure that pay rates are formally approved or authorized and employees are properly and correctly paid. It is important for Town officials to develop and implement procedures to assist and guide responsible personnel to process payroll correctly.

The Town's hiring and payroll policies and procedures need to be improved to help ensure that pay rates are formally approved or authorized by the Board so that employees are properly and correctly paid. In addition, the Town did not have adequate policies related to the accrual of leave time benefits for certain employees.

Board Approval — Payroll policies did not require personnel responsible for processing payroll to use only Board-approved pay rates. We tested payroll records for 63 seasonal employees hired

during our audit period and reviewed the Board's minutes to determine if the Board properly approved their employment and pay rates prior to starting work. We found that 60 of the 63¹ seasonal employees were hired and paid a total of \$28,210 before the Board approved their employment and pay rates on June 28, 2012. Thirty-two of the 60 seasonal employees were paid for at least four pay periods before the Board approved their pay rates.

The Town's timekeeper told us that it was not unusual for employees to start work at least one pay period before their employment and pay rates were approved by the Board. She explained that employees were paid weekly without a lag and Board meetings were not as frequent. Therefore, the payroll clerk used pay rates from the previous year. The payroll clerk was not provided with Board minutes, so she was not aware that the Board had not formally approved the hiring of the seasonal employees and their pay rates. The payroll clerk believed the employee list was prepared from the Board-approved rates even though she was never supplied copies of Board minutes to verify the rates.

Although the Board subsequently approved the employment and pay rates for the seasonal employees, the delay in Board approval increases the risk that individuals may be hired and paid at incorrect, unauthorized rates.

Early Departures — The Town's payroll policy did not provide standard requirements for Town employees regarding early departures. We observed that Highway employees were not working a full day on Fridays. Therefore, we reviewed all 24 Highway employees' time cards for the 13 weeks from January 4, 2012, to March 28, 2012, and found that, of the 312 total work days, Highway employees only worked 227 days. The time cards showed that Highway employees punched out 15 minutes early on Fridays 214 times at a cost to the Town of \$1,273. They did not punch out early the remaining 13 times due to overtime worked on those days. In addition, three maintenance workers and the Highway timekeeper also punched out early 30 out of 34 Fridays worked, costing the Town an additional \$140 for the payroll quarter.

The Board was unaware that Highway employees punch out early on Fridays. However, according to the current Highway Superintendent, it has been a past practice since 1994. We calculated that early departures on Friday afternoons cost the Town \$1,413 during the first quarter of 2012, based on one quarter hour times each employee's hourly rate. Due to a lack of guidance by the Board, the Highway

¹ The remaining three employees were hired but did not work.

timekeeper and Highway foreman developed an unauthorized time recording process where time cards were rounded to the nearest half hour instead of 15 minutes which allowed the employees to punch out 15 minutes early with pay.

Leave Accruals for Part-Time Employees — The Board did not provide sufficient guidance for handling holiday pay and vacation, personal, and sick leave for employees working between 20 and 35 hours per week. The Town's employee handbook stated that only full-time employees working 35 or more hours a week are eligible for holiday pay and vacation, personal, and sick leave. Holiday pay is paid at the employee's regular rate of pay. Vacation leave is based on the average number of hours an employee is normally scheduled to work each week. Similarly, personal leave is credited annually for five days and not by a set number of hours. For example, if a person worked a seven hour day or 35 hours a week, on average, the person is entitled to vacation pay of seven hours, and would receive 35 hours of personal leave. However, the handbook does not address individuals working between 20 and 35 hours who fall between the full-time and part-time classification of 20 hours or less per week.

Because of the lack of guidance, the timekeeper accrued leave for one employee based on a seven-hour day and charged the employee seven hours when absent for a day, while two other employees did not receive accrued leave or benefits. For example:

- A typist worked between 20 and 35 hours each week and is classified as a part-time employee with no benefits such as accrued leave.
- The Town hired a part-time accounts clerk in April 2011. The clerk was classified on the payroll records as a full-time clerk from mid-October 2011 through the end of the audit period, working over 20 hours a week. However, this employee did not receive accrued leave or benefits.
- A third employee returned to work in 2011 as a full-time clerk after an on-the-job accident and received full-time benefits even though she only worked an average of 25 hours a week, per her doctor's restrictions. Although the Accounting Department changed the payroll clerk from a weekly salary to an hourly rate, the timekeeper did not prorate her vacation and personal leave based on the average number of hours normally scheduled to work each week. As a result, the payroll clerk was granted additional leave of 17 hours in 2011 and 72 hours as of August 29, 2012. She also received an additional \$795 for holidays and accrued 89 hours of leave time valued at \$1,823.

The lack of adequate and complete payroll and leave accrual policies and procedures to provide guidance to personnel responsible for processing payroll resulted in employees being paid before the Board approved their employment and pay rates. It also resulted in Highway employees being paid for time not worked, and an employee earning leave accruals to which she may not have been entitled.

Pay Rates

The Board is responsible for ensuring that employees are properly paid the wages to which they are entitled. Collective bargaining agreements and Board resolutions must stipulate each position's salary, pay rate, and hours to be worked to ensure proper payment. When pay rates are changed frequently and are not verified, incorrect payments may go undetected.

The collective bargaining agreement provides for higher pay rates for employees who work out-of-title. We reviewed the Highway timekeeper's payroll worksheets to determine if employees were paid the correct amounts when working out-of-title. We reviewed 23 out-of-title payments and found that 19 were not correct. The timekeeper incorrectly recorded 225.5 hours at the higher heavy equipment operator rate resulting in a total of \$1,861 of incorrect out-of-title payments. Town officials did not provide oversight of employees responsible for processing payroll which contributed to the incorrect payments made to employees.

Another highway employee received overpayments in his weekly paycheck, totaling \$1,480 during the audit period, based on an agreement between the Town and the employee. The employee agreed to reduce vacation leave credits by 72 hours as reimbursement to the Town. The payroll clerk told us that rate errors were the result of the Highway timekeeper providing incorrect rates on the weekly payroll worksheet. In addition, she did not receive a copy of the Board minutes and did not verify rates to the union contract schedule which set hourly rates by position. Instead, she processed paychecks based on the hours recorded on the payroll worksheets.

Time Records

It is the Board's responsibility to provide uniform procedures for recording hours worked and authorizing paid leave. Town policy requires all employees to complete an individual time card showing the daily hours worked and authorized paid leave taken. All paid and unpaid leaves of absence must be recorded, and the time card must be verified and signed by the department head. Town employees are required to give notification of absences to the department head and Town timekeeper by telephone or email unless preauthorized. Union employees must call their direct supervisor at least one half hour prior to the scheduled start of a shift for use of personal and sick leave.

We reviewed the time cards for 17 employees² for 2011 and 2012 to determine if leave recorded on time cards was properly approved by the department heads during the audit period. In both years, six of the 17 employees were missing a supervisor's approval on their time cards, as required. One of the six employees used leave without a signature indicating approval of the department head.

The Town-wide timekeeper stated that department heads were often not available to approve time cards. She tries to get the proper signatures, and occasionally the department head would give their verbal approval and indicate that they would sign them later. However, because the personnel clerk locked the time cards in her office files once they were processed by the Town-wide timekeeper, the department heads were unable to sign the cards even though they verbally approved them. Failure to properly approve time cards increases the risk of the Town paying employees for time not worked or for unauthorized absences.

Leave Accruals

Leave accruals represent time off earned by employees. It is important that Town officials design procedures to ensure that leave accruals are earned in accordance with Town policies, collective bargaining, and employment agreements, and/or Board resolutions, and that leave accrued and used is properly accounted for. Proper accounting for employee leave accruals requires the periodic verification of records for leave accruals earned and used to ensure that leave balances are accurate and up-to-date.

Our review showed that the Town-wide timekeeper maintained sufficient leave accrual records for employees other than those of the Highway Department. The Highway Department timekeeper did not maintain sufficient leave accrual records. The Board did not provide the Highway timekeeper with a standard leave accrual form so she prepared her own individual accrual record each year on loose leaf paper. This informal record contributed to the lack of accurate accrual information for highway workers.

Three of the eight employees' leave records that we reviewed had inconsistencies in the hours of leave reported. This included 10 instances totaling 39.5 hours of unreported leave used but not recorded in the foreman's leave usage book, valued at \$938.

Without proper forms to be used to document and track leave used, accrued leave credits may be incorrect and could result in employees receiving payment for leave time to which they are not entitled.

² Every fourth permanent employee was selected from the employee withholding listing of 78 employees, excluding three elected officials.

Compensatory Time Payouts

The Town's employee handbook allows employees the option of receiving compensatory time in lieu of overtime with preauthorization from their supervisor. An employee may accumulate up to 35 hours in compensatory time credits. Any unused compensatory time credits remaining after June 30th in the year following the accrual are paid to the employee. In special circumstances, the Board may, at its discretion, approve accrual of compensatory time credits in excess of 35 hours.

Our review of leave accrual records and check stubs found that the Comptroller accumulated 90.5 hours of compensatory time during 2010 for which she was paid \$2,480 and received six checks dated July 6, 2012, totaling \$6,039, for 218.25 hours of compensatory time accumulated in 2011. The Supervisor approved the 2012 compensatory payouts for 2011 in a memo to the Payroll Department dated July 2, 2012. However, we found no evidence that the Board approved the 2010 and 2011 compensatory payments totaling \$8,519 made to the Comptroller in 2011 and 2012.

The Comptroller and the Town Clerk stated that the Board verbally gave the Comptroller permission to accrue compensatory time beyond 35 hours for budget preparation each year. We verified that the majority of compensatory hours were accumulated between September and November each year. However, we found no evidence that the Comptroller received written permission or approval from the Board. Without the Board's formal or written approval, the Comptroller may have received payments for compensatory hours that exceeded what the Board had intended.

Recommendations

1. The Board should develop policies and procedures for approving all salary and hourly wages for each position before employees start working.
2. The payroll clerk should verify rates to either an employment agreement or Board resolution before paychecks are processed.
3. The Highway Superintendent should ensure that all employees are working the full shift for which they are compensated. The practice of early departures, without using leave time, should be discontinued.
4. The Board should establish a policy for leave benefits for employees who work 20 to 35 hours per week, including leave accruals.
5. The Board should ensure that employees are paid for hours worked at the correct pay rates.

6. The Supervisor should ensure that department heads approve time cards before payment.
7. The Board should provide written forms, guidelines, and/or procedures to assist the Highway timekeeper in maintaining accurate accrual records.
8. The Board should ensure that written permission or approval is available for all compensatory time payments in excess of 35 hours annually.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

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October 22, 2013

Tennah Blamah, Chief Examiner
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New Windsor, New York 12553-4725

Dear [REDACTED]:


This letter is in response to the recent audit of the Town of Wawarsing performed by your office. The Town accepts the audit draft as presented.

Please note that the Town requested an audit, and the process began with a Risk Assessment Audit. That process led to an audit of our Payroll activities. We welcomed these audits and have taken many steps to improve our procedures and practices. We also took many steps to make changes and improvements during the audit process and our auditors were aware of this. Among these positive changes were:

- Added two new part-time staff to the Financial Office.
- Reassigned the Payroll duties and Timekeeping duties to other staff.
- Our Comptroller retired, as did a Head Account Clerk.
- We hired a CPA firm to oversee Financial Office functions and our budget.
- Implemented a completely revised and updated Employee Manual.
- Formally addressed the deficiencies and other concerns as noted in the audit report.

The Town Board will carefully and thoroughly review the audit report to ensure that every finding has been properly addressed. Thank you for the valuable help and assistance offered by [REDACTED], [REDACTED] during the audit process and also received from the auditors during the earlier Risk Assessment. This process has assisted us to better serve our Town residents and has improved internal controls over staff accruals, payroll and timekeeping. Please advise if additional information is needed.

Sincerely,


Scott C. Carlsen, Town Supervisor
wawsupervisor@hvc.n.com

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 Town assets. To accomplish the objective of our audit and obtain relevant audit evidence, we examined the Town's internal controls over payroll and leave accruals.

We interviewed Town officials and employees as part of a comprehensive evaluation of the Town's system of internal controls over payroll and accrued leave. We gained an understanding of internal controls and operating procedures by performing the following procedures:

- We documented the payroll process and the accumulation and use of leave accruals through interviews with the Comptroller, payroll clerk, timekeepers, and other Town officials.
- We reviewed Board minutes, paystubs, and the employee handbook to determine if the Board properly documented its approval of newly hired employees and their pay rates in the Board minutes before they started working.
- We verified hourly rates paid from check stubs to payroll worksheets and Board-authorized rates from the minutes of the annual organizational meeting or union agreement to calculate differences and amounts overpaid. We selected every fourth permanent employee from the employee withholding listing of 78 employees, excluding three elected officials, for two randomly selected dates within the audit period: September 21, 2011, and April 4, 2012. We also judgmentally selected and tested the payroll records for nine pay weeks based on at least two or more out-of-title payments made during the pay week.
- We reviewed time cards to determine if Highway Department employees left work early.
- We reviewed payroll worksheets, daily Highway Department work rosters, personnel records, and vehicle and equipment lists to determine the number of days employees worked out-of-title.
- We reviewed time cards, the employee handbook, leave slips, and time records to determine if leave was properly accumulated, used, and approved. To test the accuracy of Highway employees' leave accrual records for leave used, we selected every third employee from the Highway payroll worksheet of 24 employees, resulting in a sample size of eight employees.
- We traced a sample of Highway Department employees' recorded leave accruals from the payroll worksheet to daily work rosters, time cards, the accrual book, and individual accrual sheets to verify the amount and type of leave used in that pay period.
- We reviewed accrual records for employees working over 20 hours and less than 35 hours. We verified hours worked on time cards and calculated leave balances for time accrued and used per the employee handbook.

- We reviewed the employee handbook, individual time accrual sheets, payroll stubs for 2012, and the Transactions by Payroll Item report for 2011 to verify compensatory time payouts in 2011 and 2012. We then reviewed the Board minutes and requested any written approvals for compensatory payments.

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.

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