



Town of Charleston

Internal Controls Over Payroll Processing

Report of Examination

Period Covered:

January 1, 2012 — June 30, 2013

2013M-326



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	4
Comments of Local Officials and Corrective Action	4
PAYROLL PROCESSING	5
Recommendations	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 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 Charleston, entitled Internal Controls Over Payroll Processing. 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 Charleston (Town) is located in Montgomery County (County) and has a population of approximately 1,400 residents. The Town Board (Board) comprises an elected Town Supervisor (Supervisor) and four other elected members. The Board is the legislative body responsible for overseeing the Town's operations and for the general management and control of the Town's finances. The Supervisor is a member of the Board and serves as the chief executive officer and chief fiscal officer. The Town provides a range of services to its residents including justice court, highway maintenance, snow removal and a transfer station. The Town's budgeted expenditures for the 2013 fiscal year were approximately \$1.3 million, funded primarily with real property taxes, sales tax, State aid and reimbursements for mowing and plowing services performed for the County.

The Town has eight elected and five appointed officials, three part-time administrative employees, five full-time highway employees¹ and up to three part-time highway employees for snow removal purposes. The Town's payroll is processed electronically by the County on a biweekly basis and the County prepares employee payroll checks and direct deposit advices. The Highway Superintendent records the hours worked for hourly and overtime eligible employees and leave usage and accruals for highway department employees. He also records the number of days worked for retirement purposes on the payroll input forms provided to the County for processing. All other payroll information is previously entered onto the payroll input forms by County employees at the beginning of the year based on information provided by the Town bookkeeper (bookkeeper). The bookkeeper processes all other payroll related checks for the trust and agency account and records data entries in the accounting records per the payroll registers prepared by the County. The payroll registers include a certification page which is signed by the Supervisor. The Town pays the County quarterly for payroll processing.

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?

¹ The highway department had six full-time employees as of January 1, 2012, the beginning of our audit period.

**Scope and
Methodology**

We examined the internal controls over the Town's payroll processing for the period January 1, 2012 through June 30, 2013.

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 they have initiated, or planned to initiate, 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 Processing

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. Furthermore, payroll policies and collective bargaining agreements (CBAs) must stipulate each employee's entitlement to the accrual, use and payment of leave time. It is also beneficial for Town officials to implement mitigating controls, such as having someone independent of the process review payrolls for errors and certify the completed payrolls. 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. Although the Town has a CBA with the highway department employees, the Town lacks written policies and procedures to provide guidance to Town officials on how to process and distribute payrolls. Furthermore, although the Supervisor stated that he signs a payroll certification page for each payroll, he does not review the payroll records for any errors. As a result, the six highway department employees received a combined total of 134.25 hours of leave accrual benefits valued at \$2,516 that they were not entitled to for the six months of payroll we reviewed. Also, four of the six highway department employees did not receive a combined total of 37.5 hours of compensatory time valued at \$700 that they were entitled to for the same period.

The Town does not have written policies or procedures that relate specifically to payroll processing. However, the Town has a CBA with highway department employees that establishes pay rates and other benefits. The CBA includes provisions for the accrual and use of vacation, sick and personal leave as well as compensatory time² that may be earned in lieu of overtime pay. The Board approves wages for hourly employees at Board meetings. Although guidance is provided as to wages and benefits for Town staff, the Town lacks written policies and procedures to guide employees in their day-to-day duties for processing payroll.

Upon arriving and departing from work, highway department employees punch a time clock to record their time on a time card

² The CBA entitles employees to request to earn compensatory time instead of being paid for overtime worked. Compensatory time is earned at a rate of one and one half hour for every one hour of overtime worked.

that they are required to sign at the end of each payroll period. The time cards include a stamped area where each employee records the number of overtime hours worked, compensatory time earned and the amount of leave or compensatory time used. The Town's payroll information is prepared and submitted to the County for processing by the Highway Superintendent on a biweekly basis after time cards are collected. The Highway Superintendent faxes the compiled payroll information on the payroll input forms, for all Town employees and officials, to the County. The County prepares all payroll checks and direct deposit advices. After the County has reviewed and processed the payroll information, the County sends the paychecks, payroll registers, benefit time balance reports and payroll input forms for the next pay period in a sealed envelope to Town officials. The bookkeeper records data entries in the accounting records per the payroll register reports provided by the County.

The Highway Superintendent does not always review highway department employees' time cards each pay period for accuracy and completeness, as he stated that he has processed payroll based on the employees' calculations at times. He also does not compare the printed payroll checks, the direct deposit advices, the payroll input forms he submits to the County or the computerized payroll registers to one another once payroll is processed. Nor is there a review of the benefit time balance reports to verify accruals have been recorded properly. Furthermore, although the Supervisor signs and dates each payroll certifying that the payrolls are accurate, he does not review the payroll records for errors. The bookkeeper stated that her review of the payroll records does not include verifying that the highway employees' pay and accrual amounts are correct.

Due to the lack of oversight, we reviewed the Town's payroll records for six months during our audit period³ to determine if the Town's payroll was processed accurately. We found instances where all six highway department employees received benefits in excess of what they were entitled to and instances where four of the six received fewer benefits than they should have. Benefit errors were related to employees' use of leave and compensatory time accruals, as well as the calculation of overtime and compensatory time earned.

The CBA includes provisions for the accrual and use of vacation, sick and personal leave, as well as compensatory time that may be earned in lieu of overtime pay for highway department employees. We compared six employees' time cards to the payroll records processed by the County to determine if leave usage was properly recorded. We

³ We reviewed employees' time cards and compared leave time earned and used to benefit time balance reports. We also compared regular and overtime pay to the CBA and time cards. See Appendix B for further details.

found that leave and compensatory time accruals used and earned by highway department employees were not properly documented on the employees' time cards or the computerized payroll records. Some employees had more than one error.⁴

- Five employees took a total 86.5 hours off from work, valued at \$1,621; however, the employees did not properly document on the time cards that leave accruals were to be used. Therefore, leave accrual usage was not recorded in the payroll records processed by the County. This resulted in employees taking off these hours without charging the appropriate amount of leave accruals.
- Three employees took a total 34.25 hours off from work as documented on the time cards by the employees, valued at \$642; however, the leave accrual usage was not recorded in the payroll records processed by the County. This resulted in employees taking off these hours without the charge to accruals noted on the time cards reflected in the employees' computerized time accrual records.
- Three employees incorrectly earned 13.5 hours of compensatory time, valued at \$253, causing the calculation of compensatory time on the employees' time cards to be overstated. This resulted in employees being inappropriately credited with these hours of compensatory time accruals.
- Four employees earned 37.5 hours of compensatory time, valued at \$700; however, the calculation of this compensatory time was not documented correctly on the employees' time cards. Therefore, compensatory time earned was not recorded in the payroll records processed by the County. This resulted in employees inappropriately not being credited with these hours of compensatory time accruals.

The Town's internal controls over payroll processing were not sufficient to ensure that employees received only the benefits to which they were entitled. The lack of a payroll policy and formal written procedures coupled with a lack of oversight and verification of leave accruals and pay rates led to these errors occurring and remaining uncorrected. In addition, we found other minor deficiencies with the Town's payroll processing which we discussed with Town officials.

⁴ The calculation of accrual hours and value of compensatory time is presented at one and one half times regular time and regular pay.

Recommendations

1. The Board should establish a comprehensive written payroll processing policy that incorporates the duties, records and procedures needed to ensure that the processing of payroll is accurate, efficient and appropriate.
2. The Highway Superintendent should review highway department employees' time cards each pay period for accuracy and completeness. He should document his review by signing each time card.
3. The Highway Superintendent should compare the printed payroll checks, the direct deposit advices, the payroll input forms he submits to the County and the computerized payroll registers to one another once payroll is processed.
4. The bookkeeper should review highway payroll records to verify that pay amounts are correct.
5. The Supervisor should review payroll records for errors as part of his certification of payroll.
6. Town officials should review benefit time balance reports for all employees to verify accruals have been recorded properly.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN
OF
CHARLESTON
480 CORBIN HILL RD.
SPRAKERS, NEW YORK 12166
518 922-5259, 518-423-3744
Robert S. Sullivan, Supervisor

January 14, 2014

Office of the State Comptroller
One Broad St Plaza
Glens Falls, NY 12801

Attn: Jeffrey Leonard, Chief Examiner

Re: Written Audit Response to Town of Charleston Internal Controls Audit for the period January 1, 2012-
June 30, 2013

Dear Mr. Leonard:

This response will serve as both our written response to our draft audit report as well as our corrective action plan (CAP).

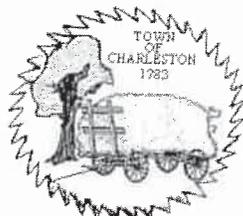
We generally agree with your findings in the draft audit report and have already implemented many of the suggestions during the audit process. We appreciate your time, effort, and professionalism during the process and continue to focus on items of concern and improve the processes to ensure satisfactory internal controls are in place and monitored. We feel the implemented recommendations will help to solidify and improve our processes already in place to have more effective internal controls.

In regard to the recommendations made in the draft report we have listed below individual comments to each item.

RECOMMENDATION #1:

“The Board should establish a comprehensive written payroll processing policy that incorporates the duties, records, and procedures needed to ensure that the processing of payroll is accurate, efficient and appropriate.”-

Response: We have completed a review of all the processes in place in regard to payroll. We have set up a system to use two people (highway superintendent to input hours and leave accruals), to be followed by a verification by a second person. (bookkeeper to verify all input and output of the checks and accrual updated logs). Additionally, the supervisor will confirm the end payroll by signing and spot checking the payroll each pay period.



**TOWN
OF
CHARLESTON**
480 CORBIN HILL RD.
SPRAKERS, NEW YORK 12166
518 922-5259, 518-423-3744
Robert S. Sullivan, Supervisor

We are also in the process of writing a comprehensive policy and procedure for all of the duties incorporated into the payroll for the Town and will be presenting it to the Board for approval and oversight within in 90 days.

RECOMMENDATION # 2

“The Highway Superintendent should review highway department employees’ time cards each pay period for accuracy and completeness. He should document his review by signing each time card.”

Response: The new Highway Superintendent is to review the cards for accuracy and sign to document his approval. We have already begun this process.

RECOMMENDATION # 3

“The Highway Superintendent should compare the printed payroll checks, the direct deposit advices, the payroll input forms he submits to the County, and the computerized payroll registers to one another once payroll is processed.”

Response: The new Highway Superintendent submits the input forms to the county as we previously did, however we have begun a process of a second step to provide the time cards and inputs sheets to the bookkeeper at that point for verification when the checks and payroll registers are returned to the Town. This provides a second review two-step process to help ensure accuracy.

RECOMMENDATION # 4

“The bookkeeper should review highway payroll records to verify that pay amounts are correct.”

Response: We have covered this in Response # 3. The bookkeeper is now the second step in the process to help ensure accuracy and a verification process is in place.

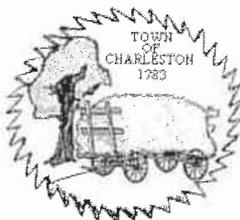
RECOMMENDATION # 5

“The Supervisor should review payroll records for errors as part of his certification of payroll.”

Response: The supervisor will begin checking the payroll records and registers for normalcy before signing off each pay period.

RECOMMENDATION # 6

“Town officials should review benefit time balance reports for all employees to verify accruals have been recorded properly.



TOWN
OF
CHARLESTON
480 CORBIN HILL RD.
SPRAKERS, NEW YORK 12166
518 922-5259, 518-423-3744
Robert S. Sullivan, Supervisor

Response: Our two-step verification process with the highway superintendent and the bookkeeper will cover this with the supervisor spot checking to confirm the process is being adhered to.

Respectfully,

Robert S. Sullivan, 

Supervisor, Town of Charleston



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. 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: control environment, financial condition, budgeting, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, Justice Court, real property taxes, departmental receipts and information technology.

During the initial assessment, we interviewed appropriate Town officials to gain an understanding of the internal control structure and determine the effectiveness of such controls. We also performed limited tests of transactions and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. Through our completion of the IT questionnaire, we gained an understanding of the Town's information systems controls. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for inherent control risks. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected internal controls over payroll for further audit testing.

To accomplish the objective of this audit, we performed the following audit procedures:

- We interviewed appropriate Town officials to understand the procedures used to process payrolls.
- We reviewed minutes of the proceedings of the Board.
- We reviewed the collective bargaining agreement (CBA) with the highway department employees to ensure that payments for wages and benefits were properly authorized.
- We chose to review the Town's payroll records for six months from our 18-month audit period. Included in the selection of the six months was January 2012 and January 2013 which had been previously reviewed during the planning phase. We used an electronic spreadsheet random number generator to select the remaining sample months of April, June and December 2012 as well as February 2013.
- We reviewed the certification page of all payrolls selected within our testing months for a proper signature.

- We used the Town’s manual payroll records, including time cards, payroll input forms, benefit time input forms and the County’s computerized payroll register reports and benefit time balance reports, to perform our testing.
- We reviewed the full-time and part-time highway department employees’ time cards to see if they had been completed appropriately. We then compared the appropriate amount of leave time that was earned and used during a pay period for each corrected time card with the leave time recorded in the benefit time balance reports. We also compared the amounts of regular and overtime pay earned as recorded in the payroll registers to our calculation of the proper rate of pay per the CBA and hours worked per the corrected time cards.

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 C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313