

City of Hudson

Payroll and Accrued Leave

MARCH 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

City of Hudson

Audit Objective

Determine whether City officials ensured employees' salaries and the amounts withheld for benefits were accurate, and leave accrual records were properly maintained and recorded.

Key Findings

- City officials did not segregate the duties of the clerks inputting payroll or implement compensating controls.
- The Council did not adopt policies that address how compensatory (comp) time will be authorized, earned and used.
- City officials did not have a process to verify accrual balances prior to approving the use of leave accruals.

Key Recommendations

- Ensure compensating controls are implemented to address the lack of segregation of duties within the payroll process.
- Adopt policies and procedures that address how comp time will be earned and used.
- Develop a process to verify leave balances prior to approving leave slips and periodically review leave records for accuracy.

City officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The City of Hudson (Hudson) is located in Columbia County and is governed by the Common Council (Council), the legislative body which comprises the President and 10 Alderpersons. The Mayor is the chief executive officer responsible for the City's daily operations. The City Charter provides the legal framework of policies within which City officers must exercise their designated powers and duties. The City Charter requires the City Treasurer to pay claims against the City, including all salaries, wages and benefits out of the funds appropriated for such purposes.

Quick Facts

Number of Employees (Full-time and Part-time)	270
2018 Total Payroll	\$4.8 million
2018 Total Benefits	\$2.9 million

Audit Period

January 1, 2018 – July 31, 2019

Payroll and Leave Accruals

How Should Officials Ensure Salaries and Wages Are Accurate, and Accrual Records Are Properly Monitored and Maintained?

Employee compensation and benefits are generally the most significant annual expenditures incurred by a city. Therefore, the council should establish and approve all salary and hourly wages by position. It is important that all compensation and benefits are paid accurately. The council should develop and implement procedures to ensure that employee compensation and amounts withheld for benefits are made in accordance with collective bargaining agreements (CBAs), individual employee contracts, and as outlined in the city's charter.

A well-designed payroll processing system requires policies and procedures that provide guidance and oversight for employees who process payroll and maintain time and attendance records. These policies help ensure that payroll is processed consistently and accurately; hours worked are accurately reported; and leave accruals, such as vacation, personal and sick leave, are properly recorded, earned and used. Detailed time records should be prepared by employees and reviewed by supervisory personnel who have direct contact with the employee. Supervisors should sign or initial the employee's time records to evidence their review and approval of hours worked. Finally, before checks are distributed, payroll registers or similar records should be reviewed and independently certified (signed) to provide oversight of the payroll process.

It is also important that one individual is not responsible for the entire payroll processing function. For example, the same employee should not enter new employees (names, addresses, social security numbers, etc.), pay rates and voluntary deductions into the computerized payroll system, process the payrolls, and prepare and distribute paychecks. Duties should be segregated so that the work of one employee is routinely verified in the course of another employee's regular duties.

An employee can earn and accrue compensatory (comp) time in lieu of receiving additional pay for time worked beyond their normal scheduled work hours. Comp time should not be earned during normal, scheduled work hours. Otherwise, the employee would be compensated twice for the same hours. To ensure consistent and appropriate accounting for and administration of this time, the council should adopt policies that address how comp time will be authorized, earned and used.

Payroll Is Not Properly Segregated or Reviewed

The City contracts with a web-based payroll vendor to process the City's biweekly payrolls. The City's three account clerks¹ and the City Clerk are responsible for

¹ The Department of Public Works, Police and Youth Departments maintain payroll records for their respective departments; the City Clerk maintains payroll records for everyone else.

entering employee information (name, address and social security number), position, pay rates or salary amounts and deductions into the web-based payroll system. Additionally, the clerks use time sheets submitted and signed by their department's employees to enter time worked or they select salaried employees to pay. Although each department's supervisor verifies and signs the payroll distribution report, which is then submitted to the Treasurer, the clerks' duties are not adequately segregated. For example, each of the clerks have the ability to change, add and delete payroll information. The Treasurer is responsible for authorizing the payroll vendor to process the payroll. The Treasurer does not independently perform a review or certify payment of wages and salaries for the City's employees. Further, after the payrolls are processed, no one reviews the payroll journal, which contains information including gross pay, net pay and withholding amounts for each employee.

We reviewed the payroll records for 61² City employees whose gross pay totaled \$224,279 for the period selected to determine whether salaries were authorized, payees were valid employees, and hours worked were accurately calculated and paid based on time records. We found the rates and hours for these employees generally were accurate. We also tested employee deductions for 15 employees to determine whether the appropriate rate was deducted from their pay based on the level of coverage selected. We found that amounts withheld were correct.

While we did not find any significant discrepancies during our testing, without proper review of the payroll, there is a risk that unauthorized or inappropriate payroll payments could occur without detection.

The Common Council Has Not Addressed Compensatory Time

City employees are earning and using comp time even though there are no policies, procedures or provisions for this time in the City's charter or CBA for City employees not in the police department. Because the City does not have comp time slips, the City utilizes the leave request slips to record comp time. Employees earning comp time scratch out "time request" and write in "earned" on the time slips. However, there is no timeline for submitting the form or requirement that comp time be approved prior to being earned. Forms are not always submitted in a timely manner. Therefore, the supervisor approving the form may not be able to verify the time that was presumably worked or approve it in advance.

We reviewed 20 employees' accrual records and found that 10 employees earned 479 hours of comp time in 2018 totaling \$13,431. These employees had ending comp time balances of 437 hours totaling \$12,554 as of December 31, 2018. We

² We selected 46 employees (44 full-time and two part-time) whose gross pay totaled \$211,169 in June 2019 and 15 part-time employees whose gross pay totaled \$13,110 in July 2019.

found that comp time was being earned by six employees during normal work hours by working through their lunch hour. However, one employee earned comp time for their lunch hour 56 times. One employee also earned 1.25 hours of comp time on their lunch hour, even though they had charged eight hours of personal leave for that day. Officials told us that this employee attended a meeting even though they had leave scheduled.

Comp time may have been inappropriately earned because the Council has not developed policies or procedures to allow comp time or to clarify how comp time will be administered.

Leave Time Was Not Verified Prior to Use

Leave requests are generated by an employee and forwarded to the department head for approval. Leave slips are then forwarded to the City Clerk's office from each department, usually coinciding with the payroll cycle. The City Clerk's staff enter the leave into the leave accrual software program. This software is maintained in the City Clerk's office, and is not accessible to other department heads.

We reviewed accrual records for 20 (25 percent) of the full-time employees for fiscal year 2018. We found one employee had used a total of nine hours of sick leave on two occasions prior to accruing the time (eight hours of sick leave is accrued at the end of each month). We also found leave was requested and recorded in the leave records for this same employee. However, the employee was docked the difference in his pay. Therefore, his leave record balance was understated by 1.5 hours at the end of the year.

City officials did not have a process in place that would allow those approving leave slips to verify the accrual balances prior to approving the use of leave accruals. As a result, there is a risk that an employee could be paid for leave they do not have.

What Do We Recommend?

The Council should:

1. Adopt policies and procedures that address how comp time will be earned and used.

City officials should:

2. Segregate the duties of the clerks who process the payroll or implement compensating controls.
3. Develop a process to verify leave balances prior to approving leave slips and periodically review leave records for accuracy.

Appendix A: Response From City Officials



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March 4, 2020

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Chief Examiner:

On February 11, 2020, the City of Hudson received the draft report from the Office of the State Comptroller detailing the results of the payroll and accrued leave audit covering the period from January 1, 2018 – July 31, 2019.

The Mayor and the City Treasurer reviewed the draft report and attended the exit conference with OSC auditors on February 19, 2020.

The City appreciates the balance in the report which acknowledges that no significant discrepancies were found in authorized salaries, pay rates, reported hours, or payroll deductions.

The City understands and agrees with the recommendations in the draft report and believes that their implementation will result in even tighter controls that will ensure that the City continues accurate payroll payments and compensatory time tracking.

The City has already begun discussions of how to best develop and implement process control enhancements, and will codify the outcome in a Corrective Action Plan that will be provided after the final report is issued.

Regards,

Kamal Johnson
Mayor, City of Hudson

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed City officials to understand the payroll process.
- We reviewed the City Charter, CBAs and department salary spreadsheets to obtain information about salaries/pay rates and leave accruals.
- To determine whether employees were accurately paid, we used our professional judgment to select 50 percent of all full-time employees and 10 percent of all part-time employees. Out of 270 employees, we tested a total of 61 employees. We selected 46 employees (44 full-time and two part-time) in June 2019 because it was the last completed month prior to our onsite fieldwork. To capture the highest population of part-time employees, we used the month of July 2019 and chose 15 employees. We compared hours worked per timesheets/contracts to the payroll journal.
- To determine whether voluntary health deductions were accurately calculated and amounts held on payroll matched the amount paid to the respective agency, we reviewed June 2019 insurance statements. We chose 15 employees used in the salary test and documented their level of services, calculated the total amount to be withheld and compared it to the monthly cost per vendor statement.
- To determine whether leave accruals were accurately tracked and recorded, we tested leave accrual records for 20 full-time employees (25 percent) for fiscal year 2018. We used our professional judgment to select the three clerks and the City Clerk that performed payroll duties. We selected the remaining employees that are not part of the payroll process from the following departments: DPW - five; Youth - four; Treasurer - three; City Clerk - two; Parking Enforcement - one; and Police - one. We verified contracts for time allowed, and compared leave slips to timesheets and accrual records maintained for each employee.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning

the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of 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 City Common Council to make the CAP available for public review in the City Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/localgov/academy/index.htm

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