



Town of Saranac Payroll

Report of Examination

Period Covered:

January 1, 2013 – July 31, 2014

2014M-289



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Saranac, entitled Payroll. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State 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 Saranac (Town) is located in Clinton County and has a population of approximately 4,000 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for general oversight of Town operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town money; maintaining the accounting records and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, planning, recreation and cultural activities, water service and general governmental support. The Town's 2014 budgeted appropriations are approximately \$2.12 million, funded primarily with real property taxes.

The Town paid 37 employees during 2013 and payroll expenditures totaled approximately \$669,000. The Town employs a Secretary to the Supervisor (Secretary) who works under the Supervisor's direction and is responsible for processing payrolls and maintaining leave records.

Objective

The objective of our audit was to determine if Town officials established effective internal controls over payroll. Our audit addressed the following related question:

- Are internal controls over payroll and the maintenance of leave accruals appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

We examined the Town's payroll records for the period January 1, 2013 through July 31, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of 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 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 Town Clerk's office.

Payroll

The Board is responsible for establishing internal controls over payroll. Good controls include implementing policies and procedures for preparing and disbursing payroll and maintaining leave records so employees are paid salaries and wages and provided leave benefits to which they are entitled. Sound controls help to ensure employees are paid at Board-approved pay rates and time worked and leave time earned and used is properly documented, monitored and controlled. In addition, Town officials should segregate payroll duties, when possible, to ensure that no individual controls all phases of a payroll transaction. When segregating duties is not feasible, officials should implement compensating controls to reduce the associated risks.

Town officials need to improve internal controls over the Town's payroll function. Because there were no comprehensive written policies and procedures over processing payroll and leave time accruals, the Secretary performed virtually all payroll functions with limited oversight and insufficient compensating controls in place. Although our review of payroll processing did not reveal any material discrepancies, because the Town lacked adequate internal controls errors could occur and remain undetected. Additionally, the Secretary and the building maintenance worker earned and used 174.50 hours of vacation and sick leave, when there was no Board approval authorizing these benefits. Finally, employees' leave accrual records were not accurately maintained. As a result, three employees' leave accrual records contained errors totaling 149.50 hours, valued at \$3,020.

Payroll Processing

Written payroll policies and procedures, combined with detailed job descriptions that assign specific payroll activity responsibilities, help ensure that employees understand their role in the payroll process. It is important that one individual is not responsible for the entire payroll processing function. If segregating duties is not feasible because of the Town's limited staffing, at a minimum, the Board should implement compensating controls such as providing additional oversight of the payroll process or ensuring that payrolls are adequately certified. The certification process should involve comparing payroll source documents with payroll registers to ensure payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries. In addition, New York State Town Law designates the Supervisor as the official responsible for signing checks¹ and, therefore, he plays a critical role in the payroll process. The Supervisor

¹ In the Supervisor's absence, the Deputy Supervisor is authorized to sign Town checks.

should ensure that blank check stock is properly safeguarded to prevent unauthorized payroll payments and misuse of Town funds.

The Board did not adopt comprehensive policies and procedures to provide guidance or implement sufficient compensating controls over the payroll process. Due to the Town's limited staffing, payroll duties were not adequately segregated. The Secretary was responsible for creating employee records, collecting employees' time records, recording the hours worked or salaries to be paid and making changes to employees' pay rates, withholdings and deductions. In addition, she was responsible for printing payroll checks, preparing and executing the employees' direct deposits and reconciling the payroll bank account. The Secretary performed all of these duties with limited oversight.

The Board implemented an independent review of the payroll process by requiring the Supervisor to sign payroll checks and review and certify the final payroll registers. However, his reviews were inadequate, because he did not compare the payroll registers with payroll source documents (i.e., time records) to ensure payments were based on the actual hours or days worked and Board-authorized pay rates or annual salaries. Further, no one reviews source documents to verify whether the Secretary accurately processed payrolls. In addition, the blank payroll check stock was not safeguarded because it was kept in an unlocked filing cabinet in the Secretary's office and was accessible to other Town employees.

Because of these weaknesses, we traced the names of 20 individuals who received payroll payments in 2013 or 2014 to personnel files to verify they were legitimate Town employees. We did not identify any discrepancies. In addition, we reviewed payroll payments totaling \$736,999² made to 15 employees during 2013 and 2014 to verify whether the information entered into the payroll system agreed with the time records; pay rates agreed with Board resolutions, the employee handbook or the Highway Department's collective bargaining agreement (CBA); and gross pay was calculated correctly. Except for one minor exception that we discussed with Town officials, we did not find any other discrepancies. For the items we tested, the people paid were employees of the Town and amounts paid were supported by time records and approved pay rates.

Although the payroll records were prepared accurately, when Town officials allow the Secretary to have complete control over the payroll process without providing proper oversight and monitoring of her

² The payroll payments we reviewed consisted of \$468,138 in 2013 and \$268,861 in 2014.

work, it increases the risk that errors or irregularities could occur and remain undetected. In addition the lack of safeguards over blank payroll check stock increases the risk that payroll checks could be prepared and issued for an unauthorized payroll payment.

Leave Accruals

A good system of accounting for employee leave time (i.e., vacation and sick leave) requires Town officials to periodically verify the accuracy of employee leave records with regard to leave time earned and used. Town officials should implement comprehensive policies and procedures to help ensure that periodic independent reviews of leave accrual records and balances are performed. Officials should also ensure that Town personnel properly calculate and deduct leave time used from employee leave accrual balances and that leave is earned in accordance with formally established Town policies, CBAs and Board resolutions.

The Board did not adopt comprehensive policies and procedures to provide guidance or implement sufficient compensating controls over employees' leave accrual records maintained by the Secretary. The Secretary received records³ containing employees' absences, which she used to deduct the amount of leave time used from each employee's leave accrual balance. However, the Secretary did not complete a time sheet to record the leave time she used. The Secretary stated that she records the leave time she uses each month on her desk calendar, but discards the calendar at month-end. As a result, the Secretary failed to keep the supporting documentation substantiating the leave time she used and recorded in the payroll system. Further, although employees received leave accrual balances on their biweekly paychecks or direct deposit stubs, no one periodically reviewed or compared the time records with the leave accrual records to ensure the leave records maintained by the Secretary were accurate.

We also found that the Secretary and the building maintenance worker,⁴ who were non-union part-time employees, earned and used vacation leave.⁵ However, the Town's employee handbook, which outlines the benefits for non-union employees, states that full-time employees that work a minimum of 30 hours a week will be entitled to earn and use vacation leave. In addition, these two employees

³ These records include punch cards for the Highway Department employees and manual time sheets for the building maintenance worker.

⁴ The Secretary works 17.5 hours per week (3.5 hours each day, five days a week). The building maintenance worker is scheduled to work 25 hours per week (5 hours each day, five days a week).

⁵ The Secretary earned four weeks of vacation leave during both 2013 and 2014. The building maintenance worker earned no vacation leave during 2013 and two weeks of vacation leave during 2014. The vacation leave was earned based on these employees' years of service with the Town.

earned and used sick leave,⁶ although the Town's employee handbook contained no provision authorizing the accrual and use of sick leave. Instead, these two employees earned sick leave in accordance with the provisions outlined in the Highway Department's CBA.

Town officials could not provide us with documentation of the Board's approval allowing these two employees to earn and use vacation or sick leave. Although there was no Board approval authorizing these benefits, we found that during our audit period, the Secretary used 84.50 hours of vacation leave and 69.50 hours of sick leave and the building maintenance worker used two hours of vacation leave and 18.50 hours of sick leave.

We reviewed all Town employees' leave accrual records⁷ during our audit period to verify that the days employees recorded using leave on their time records⁸ were properly deducted from their leave accrual balances during our audit period. We also verified that the amounts of leave credited and carried forward during 2013 and 2014 agreed with the Town's employee handbook or the Highway Department's CBA.⁹

We found the data the Secretary entered into the employees' leave accrual records in the payroll system during our audit period agreed with the employees' time records. However, one employee's unused leave was not properly carried forward in the payroll system records during 2013, two employees were not credited with the proper amount of leave during 2013, and one employee was not credited with the proper amount of leave during 2014. As a result of these errors, two employees were credited with 69.50 hours of leave to which they were not entitled, valued at \$1,422 and two employees were not credited with 80 hours of leave to which they were entitled, valued at \$1,598.¹⁰

Although the cost to the Town for these discrepancies was not material, the cumulative impact of such errors and irregularities over time could result in a substantial cost. Additionally, accurate leave records are essential to determine the proper amount of termination payments

⁶ The Secretary and building maintenance worker earned one day of sick leave each month.

⁷ The Secretary, a building maintenance worker and eight full-time Highway Department employees earned and used leave during our audit period.

⁸ The Secretary did not maintain a time record. Therefore, we could not verify that the days she used leave were properly deducted from her leave accrual balances.

⁹ We used the leave provisions outlined in the Town's employee handbook and Highway Department's CBA to review the amounts of leave credited and carried over by the Secretary and the building maintenance employee.

¹⁰ One employee was credited with leave to which he was not entitled and was also not credited with leave to which he was entitled. As a result, three employees had errors with their leave accrual records.

for employees retiring or resigning from their positions to help ensure that Town employees are only compensated for contractually entitled amounts. Further, without periodically reconciling leave accrual records with time records there is an increased risk that errors or irregularities could occur and remain undetected.

Recommendations

The Board should:

1. Adopt comprehensive payroll processing and leave time accrual policies and procedures that incorporate the duties to be completed and records to be maintained for processing payrolls and maintaining leave records.
2. Implement compensating controls to address the lack of segregation of duties within the payroll process, such as increasing management reviews of the work performed by the Secretary.
3. Ensure the Secretary completes and signs an individual time record attesting to the leave time used that includes supervisory approval.
4. Ensure an individual independent from leave records maintenance periodically reviews leave accrual records and balances for accuracy.
5. Ensure all leave benefits are properly authorized, approved and provided pursuant to Board resolutions, the Town's employee handbook or the applicable CBAs.
6. Ensure the Secretary and building maintenance employee discontinue using leave time, unless the Board takes action to authorize leave time for these employees.

The Supervisor should:

7. Compare payroll registers to payroll source documents when certifying payrolls and signing the payroll checks.
8. Ensure that blank check stock is accessible to individuals that are authorized to sign checks.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Joe Gerardi
Supervisor

Daniel Carter
Deputy Supervisor/Councilman

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Combined Audit Response Letter and Corrective Action Plan

The five members of the Saranac Town Board have reviewed the Town of Saranac Payroll Report of Examination (2014M-289) which covered the period of January 1, 2013 through July 31, 2014, and we agree with the audit findings.

As this correspondence is also serving as the Corrective Action Plan (CAP), listed below is the Town's response.

Audit Recommendation 1:

The Board should adopt comprehensive payroll processing and leave time accrual policies and procedures that incorporate the duties to be completed and records to be maintained for processing payrolls and maintain leave records.

Implementation Plan of Action:

When requesting time off, the employee will fill out a request form (a temporary one at first, followed by a more formal printed form when it arrives from the printer) and submit it to his/her department head. The department head will approve or disapprove the request. One copy of the request will be given to the employee, one to the department head, and one to the Supervisor's Secretary/Bookkeeper. The Secretary will keep these records on file. When processing payroll, the Secretary/Bookkeeper will process the data and review the timecards and leave requests.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

Joe Gerardi, Supervisor; Patti LaMora, Secretary

Audit Recommendation 2:

The board should implement compensating controls to address the lack of segregation of duties within the payroll process, such as increasing management reviews of the work performed by the Secretary.

Implementation Plan of Action:

Before signing the payroll register and checks, the Supervisor will spot check timecards and/or time records to ensure that they agree with the payroll register. The Supervisor will not sign the payroll register unless the spot checks prove accurate.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

Joe Gerardi, Supervisor

Audit Recommendation 3:

The Board should ensure the Secretary completes and signs an individual time record attesting to the leave time used that includes supervisory approval.

Implementation Plan of Action:

A temporary form has been generated which documents the individual time record of the Secretary attesting to her leave time requested and another form which reflects her leave time used. The request form includes a line for the Supervisor's approval/disapproval verified by his initials. The newly generated Time-off Request Form will be filled out and kept on file. A permanent Time-off request form will replace the temporary form when received from the printer.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

J. Gerardi, Supervisor

Audit Recommendation 4:

The board should ensure an individual independent from leave records maintenance periodically reviews leave accrual records and balances for accuracy.

Implementation Plan of Action:

Quarterly, the Supervisor will review the leave records for their accuracy and will verify his review by signing the Quarterly Review Page which has been added to the front of the Time-off Record book.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

Joe Gerardi, Supervisor

Audit Recommendation 5:

The Board should ensure all leave benefits are properly authorized, approved and provided pursuant to Board resolutions, the Town's Employee Handbook or the applicable CBA's.

Implementation Plan of Action:

Added to the Employee Handbook on page 4 under "Section II Definitions - Part Time Employees" is the following sentence:

"The Building Maintenance Worker and the Secretary to the Supervisor shall accrue leave time and vacation time as specified in articles IV, V, and VIII of the union contract and section IV of this Handbook."

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

Joe Gerardi, Supervisor

Audit Recommendation 6:

The Board should ensure the Secretary and building maintenance employee discontinue using leave time, unless the Board takes action to authorize leave time for these employees.

Implementation Plan of Action:

The Building Maintenance Worker and the Secretary to the Supervisor have been accruing leave time as according to articles IV, V, and VIII of the union contract and section II of the Employee handbook, but that has never been written. With the response to Audit Recommendation 5 above, the Building Maintenance Worker and the Secretary to the Supervisor will be accurately defined as authorized to accrue leave time.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

Joe Gerardi, Supervisor

Audit Recommendation 7:

The Supervisor will compare payroll registers to payroll source documents when certifying payrolls and signing the payroll checks.

Implementation Plan of Action:

Before signing the payroll register and checks, the Supervisor will spot check timecards and/or time records to ensure that they agree with the payroll register. The Supervisor will not sign the payroll register unless the spot checks prove accurate.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

J. Gerardi, Supervisor

Audit Recommendation 8:

The Supervisor should ensure that blank check stock is accessible to individuals that are authorized to sign checks.

Implementation Plan of Action:

The blank check stock has been relocated. From its unsecured placement in an unlocked file cabinet in the Secretary's office the blank checks are now stored in a newly purchased locking file cabinet located in the Supervisor's Office.

Implementation Date:

November 25, 2014

Person Responsible for Implementation.

J. Gerardi, Supervisor

Signed:

Joe Gerardi - SUPERVISOR
(name and title)

Date:

11-25-14

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 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, accounting records, financial condition, budgeting, cash receipts and disbursements, deposits and investments, purchasing and claims processing, payroll and personal services and information technology.

We interviewed Town officials, performed limited testing and reviewed Town policies, Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected payroll for further audit testing.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials and reviewed the Town's policies, the Town's employee handbook, the Highway Department's CBA and various financial records and reports to gain an understanding of the internal controls in place over the processing of payroll and maintenance of leave accrual records and documented any associated effects of deficiencies in those controls.
- We traced the names of a random sample of 20 individuals who received payroll payments in 2013 or 2014 to personnel files to verify that they were legitimate Town employees. We used a computerized random number generator to select our sample.
- We reviewed payroll payments made to 15 employees during 2013 and 2014 to verify whether the information entered into the payroll system agreed with time records; the pay rates agreed with Board resolutions, the employee handbook or the Highway Department's CBA; and gross pay was calculated correctly. Our sample consisted of the two employees who were involved in the processing of payroll during 2013 and 2014, eight Highway Department employees and five other employees who received payroll payments during 2013 and 2014 for a total of 15 employees.
- We reviewed all Town employees' leave accrual records during our audit period to verify that the days employees recorded using leave on their time records were properly deducted from their leave accrual balances during our audit period. We also verified that the amounts of leave credited and carried forward during 2013 and 2014 agreed with the Town's employee handbook or the Highway Department's CBA.

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

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