



Town of Rochester

Financial Condition and Highway Department Payroll

Report of Examination

Period Covered:

January 1, 2010 – July 31, 2015

2015M-324



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

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 Rochester, entitled Financial Condition and Highway Department 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Rochester (Town) is located in Ulster County and has a population of approximately 7,300 residents. The Town provides various services to its residents, including street maintenance and improvements, snow removal and general government support. The Town is governed by an elected five-member Town Board (Board), composed of four Board members and a Supervisor, responsible for the general management and control of Town financial affairs. The Supervisor, as chief fiscal officer and budget officer, is responsible for maintaining accounting records, providing financial reports to the Board and preparing the tentative budget for Board approval. The Town has an elected Highway Superintendent who is responsible for overseeing all highway operations.

For 2015, the Town's general fund budgeted appropriations were \$1.9 million and highway fund budgeted appropriations were \$1.4 million.

Scope and Objectives

The objectives of our audit were to determine if Town officials established effective internal controls over Town finances and Highway Department (Department) payroll. We examined the Town's financial records for the period January 1, 2010 through July 31, 2015. We limited our scope for the examination of Department payroll records to the period January 1, 2014 through June 30, 2015. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets that were structurally balanced and take appropriate actions to maintain the Town's fiscal stability?
- Are internal controls over payroll and the maintenance of leave records for Department employees adequately designed and operating effectively?

Audit Results

The Board did not adopt structurally balance budgets from 2010 through 2014, resulting in a \$1 million (91 percent) decline in general fund balance to \$95,000. In addition, highway fund balance declined by \$359,000 (96 percent) over these years, resulting in an ending fund balance about of \$15,000. In 2015, the Board budgeted to appropriate \$150,000 of general fund balance to finance operations. However, there was only approximately \$95,000 available, resulting in the general fund beginning 2015 with a budgetary deficit of \$55,500. In 2015, the general fund will likely have an operating deficit of approximately \$46,000, reducing the general fund balance to less than \$50,000.

Further, tentative 2015 highway fund operating results show a deficit of approximately \$17,000. As a result, the highway fund may have problems funding operating costs.

Town officials also need to establish comprehensive policies and procedures for preparing payroll and maintaining leave time accruals for Department employees and improve their oversight of this process. As a result of these weaknesses, we question whether certain overtime should have been paid. In addition, we found that some employees' leave accrual records were not accurately maintained, resulting in four employees' leave accruals being overstated by 148.85 hours valued at \$3,957, while five employees' leave accruals were potentially understated by a total of 54.1 hours valued at \$1,351. Finally, a seasonal employee was paid \$1,350 for 54.4 hours to which he may not have been entitled.

Comments of Town Officials

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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response letter

Introduction

Background

The Town of Rochester (Town) is located in Ulster County and has approximately 7,300 residents. The Town is governed by an elected Town Board (Board) composed of four Board members and a Supervisor. The Board is responsible for the general management and control of Town financial affairs and the Supervisor is the chief fiscal officer and budget officer. Although the Board is primarily responsible for the effectiveness and proper functioning of Town internal controls, the Supervisor and department heads also share the responsibility for ensuring that internal controls are adequate and working properly.

The Town provides various services to its residents, including street maintenance and improvements, snow removal and general government support. The Town's 2015 budgeted appropriations for the general fund were \$1.9 million and \$1.4 million for the highway fund, financed primarily with real property taxes and State aid. The Town has an elected Highway Superintendent (Superintendent) who is responsible for overseeing all highway operations.

Objectives

The objectives of our audit were to determine if Town officials established effective internal controls over Town finances and Highway Department (Department) payroll. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets that were structurally balanced and take appropriate actions to maintain the Town's fiscal stability?
- Are internal controls over payroll and the maintenance of leave records for Department employees adequately designed and operating effectively?

Scope and Methodology

We examined Town financial records for the period January 1, 2010 through July 31, 2015. We limited our scope for the examination of Department payroll records to the period January 1, 2014 through June 30, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. 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 the relevant population size and the sample selected for examination.

**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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response letter.

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

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the Town and the taxpayers who fund its operations. A town's financial condition reflects its ability to provide and finance services on a continuing basis. A town is considered to have sound financial health when it can consistently generate sufficient revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due without relying on short-term borrowing. It is essential for the Board to establish detailed budget policies that help ensure the adoption of realistic and structurally balanced budgets and establish goals for fund balance levels so that recurring revenues finance recurring expenditures.

The Board did not adopt structurally balanced budgets over the five years from 2010 through 2014. Over that period, the Board appropriated \$1.4 million of fund balance, which resulted in planned operating deficits totaling approximately \$1.3 million. This led to a \$1 million (91 percent) decline in general fund balance to \$95,000 as of December 31, 2014. Similarly, the highway fund experienced operating deficits of \$648,000 over these same years as a result of spending more than the amounts budgeted each year. This led to a 96 percent decline in highway fund balance to approximately \$15,000 as of December 31, 2014.

For 2015, the Board appropriated \$150,000 of general fund balance to finance operations. However, there was only about \$95,000 of available fund balance to appropriate, resulting in the general fund beginning 2015 with a budget deficit of approximately \$55,000. Tentative operating results for 2015 indicate that the general fund experienced an operating deficit of approximately \$46,000, reducing the general fund balance to less than \$50,000. For 2015, the highway fund incurred a tentative operating deficit of \$17,000, which will result in a highway fund balance deficit of approximately \$2,000.

Budgeting

It is essential that the Board adopt structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. An appropriation of fund balance is the use of unexpended resources from prior years to finance budgeted appropriations and is considered a one-time financing source. This is an acceptable and reasonable practice when a Town has accumulated an adequate level of unrestricted fund balance. However, when a Town has recurring annual operating deficits, fund balance will eventually be depleted and ultimately will go into a deficit position.

The Board adopted budgets that were not structurally balanced because recurring expenditures were not funded with recurring revenues. The Board appropriated fund balance to fund operations for the fiscal years 2010 through 2014, resulting in planned general fund operating deficits of \$1.3 million and unplanned operating deficits of \$135,000.

In addition, the Board overestimated certain revenues each year. For example, the Board included estimated revenues in the general fund budgets for other departmental income, demo income and other State aid even though no revenues were realized for these items in previous years. Furthermore, seven individual budget revenue items were not adjusted despite a trend of actual revenues collected being less than the budgeted revenues in previous years. This resulted in general fund revenue shortfalls each year from 2010 through 2014, ranging from 4 percent to 16 percent, as shown in Figure 1.

Figure 1: General Fund – Overestimated Revenues						
	2010	2011	2012	2013	2014	Totals
Estimated Revenues	\$1,678,200	\$1,725,115	\$1,817,166	\$1,745,364	\$1,805,029	\$8,770,874
Actual Revenues	\$1,573,977	\$1,648,458	\$1,524,731	\$1,534,508	\$1,583,602	\$7,865,276
Revenue Shortfall	(\$104,223)	(\$76,657)	(\$292,435)	(\$210,856)	(\$221,427)	(\$905,598)
Percentage	6%	4%	16%	12%	12%	10%

As with the general fund, the highway fund budget was not based on operating results of previous years. Rather, the Superintendent carried forward the previous year's budget, making adjustments for contractual payroll increases. As a result, appropriations were overspent each year from 2010 through 2014, ranging from 13 percent to 25 percent, as shown in Figure 2.

Figure 2: Highway Fund – Underestimated Expenditures						
	2010	2011	2012	2013	2014	Totals
Appropriations	\$1,315,543	\$1,302,318	\$1,383,327	\$1,371,159	\$1,419,474	\$6,791,821
Actual Expenditures	\$1,643,954	\$1,562,054	\$1,649,940	\$1,669,794	\$1,603,426	\$8,129,168
Overspending	\$328,411	\$259,736	\$266,613	\$298,635	\$183,952	\$1,337,347
Percentage	25%	20%	19%	22%	13%	20%

Town officials overexpended certain highway fund budget items each year. For example, Town officials spent more on contractual street maintenance than was budgeted by \$575,900 in 2010, \$468,100 in 2011, \$392,500 in 2012, \$330,200 in 2013 and \$415,276 in 2014.

Operating Results

Budgets are meant to balance revenues and expenditures, so that local governments are able to provide needed services with the resources available. However, budgets are estimates and operating deficits will result if expenditures exceed revenues. An operating deficit can be planned for and financed by appropriating fund balance. An unplanned

operating deficit can result from overspending appropriations, not receiving budgeted revenues or a combination of the two. Although planned operating deficits can be a way to prudently use excess accumulated fund balance to finance operations, persistent and recurring operating deficits are usually indicative of structurally imbalanced budgets and financial problems.

The general fund incurred planned operating deficits¹ in each of the last five years. However, in two of those years, portions of the operating deficit were unplanned. As a result, the fund balance has decreased by 91 percent from almost \$1.1 million in 2010 to \$95,141 in 2014, leaving the general fund in poor financial condition.

Figure 3: General Fund – Fund Balance and Operating Results					
	2010	2011	2012	2013	2014
Beginning Fund Balance	\$1,389,203	\$1,096,588	\$969,563	\$730,527	\$313,255
Operating Deficit	(\$292,615)	(\$127,025)	(\$239,036)	(\$417,272)	(\$218,115)
Ending Fund Balance	\$1,096,588	\$969,563	\$730,527	\$313,255	\$95,141

The highway fund experienced unplanned operating deficits in four of the last five years. As a result, fund balance decreased by 96 percent from \$375,180 in 2010 to \$15,190 in 2014, leaving the highway fund in a poor financial position.

Figure 4: Highway Fund – Fund Balance and Operating Results					
	2010	2011	2012	2013	2014
Beginning Fund Balance	\$663,668	\$375,180	\$504,874	\$370,593	\$143,213
Operating Surplus/(Deficit)	(\$288,488)	\$129,691	(\$134,280)	(\$227,381)	(\$128,023)
Ending Fund Balance	\$375,180	\$504,874	\$370,594	\$143,213	\$15,190

For 2015, the Board appropriated \$150,000 of fund balance to finance general fund operations. However, there was only approximately \$95,000 available, resulting in the general fund beginning 2015 with a budget deficit of \$55,000. We project that the general fund will likely have an operating deficit for 2015 of approximately \$46,000, reducing the general fund balance to less than \$50,000. Further, the 2015 highway fund's tentative results show a likely operating deficit of approximately \$17,000. While this deficit is the lowest in the last four years, it will result in a \$2,000 highway fund deficit. As a result, the highway fund may have problems funding operating costs.

The Board's budget practices resulted in Town budgets that were inaccurate and unrealistic, which resulted in operating deficits and

¹ An operating deficit occurs when annual expenditures exceed annual revenue. A planned operating deficit occurs when Town officials' appropriate (use) fund balance to cover a portion of operating costs.

diminished fund balances. While the Town relied on appropriated fund balance to finance operations in prior years, those resources have been almost fully exhausted. Therefore, the Town can no longer rely on fund balance as a financing source for its operations. As a result, the Board will have to find alternative recurring revenue sources or reduce costs to maintain the Town's financial position.

Recommendations

The Board should:

1. Adopt accurate budgets with reasonable estimates of revenue, expenditures and fund balance.

The Superintendent should:

2. Monitor the highway fund's operating expenses throughout the year to prevent overspending the budget.

Highway Department Payroll

An important Board responsibility is to establish a system of internal controls over payroll to help ensure that employees are paid the wages and salaries and provided benefits to which they are entitled. Good controls include having and enforcing written policies and procedures to provide reasonable assurance that complete and accurate time and attendance records are maintained, overtime is adequately documented and the use of leave accruals and payroll transactions are routinely monitored and reviewed. These controls help to ensure that employees are paid at Board-approved or collective bargaining agreement (CBA) pay rates and that time worked and leave time earned and used is properly documented, monitored and controlled. Town officials also must provide oversight of employees who process payroll and maintain employee leave accrual records. The Superintendent is directly responsible for the oversight and approval of Highway employee time records and leave accruals.

The Board and Department officials need to improve internal controls over payroll and the process for maintaining leave accrual records for Department employees. The Town does not have comprehensive policies and procedures for preparing payroll and maintaining leave time accrual records for Department employees and Town officials did not provide adequate oversight. As a result, we question whether Department employees were entitled to certain overtime payments. In addition, employee leave accrual records were not accurately maintained. Four employees' leave accruals may have been overstated by a total of 148.85 hours valued at \$3,957 and five employees' leave accruals may have been understated by 54.1 hours valued at \$1,351.

Time and Attendance Records

A lack of appropriate time and attendance records increases the likelihood that an employee could be paid for time not worked or for unauthorized absences. Department policies and procedures should provide clear guidance for recording the time worked and leave used. The Town's CBA requires employees to record all hours worked in each workday in a manner to be determined by the Town. The Superintendent told us that employees must use the Department's time clock to record hours worked each day.

Correctly maintaining and reviewing leave accrual records helps ensure that such records are accurate and that employees receive payment for leave time to which they are entitled. Leave request forms should be required and approved to document the use of accrued leave credits. When accrued leave is used, an employee should indicate the amount and type of leave used on their timecard.

The Department secretary (secretary) documents and maintains time and leave records. When preparing for the weekly payroll, the secretary reviews each employee's timecard. The secretary then prepares a combined time sheet for all Department employees.² The Superintendent then approves the combined time sheet and submits it to the Supervisor's office for processing. During the secretary's timecard review, she records the leave indicated on the timecards onto a leave record for each employee.

We reviewed the combined time sheets and certified payroll journals for all pay periods from January 1, 2014 through June 30, 2015 to determine whether the time records were accurate. We found that the hours reported on the combined time sheets submitted to the Supervisor's office agree with the Town's payroll records. We then compared the combined time sheets to the employee timecards and leave records for all pay periods for this same period to determine if the hours reported agreed with the timecards. Our review disclosed the following discrepancies:

- We were unable to verify the accuracy of hours worked for five occurrences when, instead of using the time clock, employees' timecards contained handwritten times in and times out.
- We identified 14 instances when nine employees' start or end times were changed on the timecards (i.e., the timeclock time was crossed out and a handwritten start or end time was added).
- One employee's timecard was blank for an entire week, with no indication that the employee was on leave.
- Three timecards were not signed by the employee.

In addition, timecard hours and manual leave records contained computation errors (see Leave Accrual and Use), and leave used by employees was not entered on the combined time sheet. Without accurate time and leave accrual records, there is a risk that employees may receive payment for leave time to which they are not entitled.

Overtime

Prior approval for overtime allows management to make sure that overtime is incurred for a valid and necessary purpose and that funding for non-emergency overtime is provided for in the budget. The Superintendent is responsible for monitoring employees and

² The Department currently employs a staff of eight full-time employees. From November 2014 through April 2015, the Department had nine full-time employees and until March 2014 had one seasonal employee.

verifying that overtime submitted for payment actually occurred and is reasonable.

The CBA specifies the regular workweek for Department employees. By mutual agreement, the parties may advance or delay the starting time. According to the CBA, an employee must receive prior approval from the Superintendent, or his designee, before working beyond the normal workday or workweek. Any authorized work in excess of the employee's scheduled workday or over 40 hours a week is paid at one and one-half times the regular hourly rate for the actual hours worked. In addition, an employee who is called out for duty that is in addition to, and does not attach to, regular working hours is paid for a minimum of four hours, whether or not the employee actually works the full four hours.

The Superintendent appointed a Deputy Superintendent (Deputy) to oversee the Highway Department in his absence, who is required to be on-call when the Superintendent is not available. To compensate the Deputy, the Board approved payment of a \$2,000 stipend for both 2014 and 2015.

We reviewed all overtime payments made from January 1, 2014 through June 30, 2015 and question whether Department employees were entitled to overtime payments as follows:

- Pay-Through – Town officials told us that a pay-through occurs on days when inclement weather is occurring and the Superintendent anticipates that he will need to call in employees to plow the roads. The Superintendent will occasionally release employees before they have completed their full eight-hour shift when such an event occurs. The employee clocks in and out for both their regular shift and when they return. Timecards are adjusted so that the first clock out and second clock in are crossed off on the timecards, making it appear that the employee worked the entire time. Employees are paid for the time between shifts when they were off the clock and generally receive overtime when they return to work even though they did not complete an entire eight-hour shift.

During the audit period, a pay-through occurred on six occasions, with employees being paid for 280.75 overtime hours totaling \$11,534. Because certain employees were released before they completed a full eight-hour shift during these days, we question whether those employees should have received overtime payments. If employees completed a full eight-hour shift, the Town may have had to pay these employees for just 134 overtime hours totaling \$4,947.

According to the Superintendent, he handles employee timecards in this manner to comply with New York State Department of Transportation (DOT) regulations regarding length of drive times. He told us that he feels this is the best way to ensure that the employees are rested and comply with DOT regulations. However, because the CBA allows by mutual agreement the advance or delay of starting times, the Superintendent could explore the use of alternate or staggered shifts or bring employees in at a later time. If so, Department overtime could be reduced in the future.

- On-Call Pay – During our audit period, the Deputy received 76 hours of overtime pay totaling \$2,906 for being on-call 18 times during the Superintendent's absence. The Superintendent approved the overtime payments but did not inform the Board that the Deputy would be paid overtime in addition to the Board-approved stipend. Three Board members told us the Deputy was paid the stipend for acting in the Superintendent's absence and were not aware that the Deputy was also paid overtime.
- Handwritten Overtime Hours – We found 48 instances when three employees had handwritten their overtime hours on timecards instead of using the Department time clock. Of these instances, 44 were made by one employee. The handwritten overtime pay totaled \$7,647 for 200.5 hours of which \$7,065 for 184.5 hours was paid to the Deputy.³

According to the CBA, an employee must receive prior approval from the Superintendent, or designee, before working beyond the normal workday or workweek. We recognize there are circumstances when it would not be feasible for the employee to report to the highway garage to clock in. However, because the employees did not use the time clock and the Superintendent was unable to provide us with records documenting that the employees had received prior authorization to work overtime, Town officials do not have adequate assurance that the hours submitted by the employees for overtime were actually worked.

Without sufficient documentation and review of time records to ensure employee compensation is accurate, there is an increased risk that inaccurate payments for overtime could be made without being detected and corrected in a timely manner.

³ This includes the \$2,906 for the 76 hours of on-call overtime pay.

Leave Accrual and Use

A good system of accounting for employee leave time (i.e., vacation, sick and personal leave) requires Town officials to periodically verify the accuracy of employee records with regard to leave time earned and used. The Board and Town officials should establish comprehensive policies and procedures to help ensure that periodic independent reviews of leave accrual records and balances are performed. Town 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 the CBA. The Superintendent is responsible for monitoring leave use and ensuring contractual provisions are followed.

The CBA establishes the amount of vacation, sick and personal leave that each employee is entitled to. The amounts accrued by each employee are based on date of hire and years of continuous service. The secretary calculated and maintained employee leave accruals.⁴ While reviewing the timecards, the secretary documented the employees' leave indicated on the timecards onto a leave record for each employee. The secretary keeps manual records which are the Town's only records for Department leave accruals.

We recalculated each employee's leave accruals for 2014 and 2015. We also compared the time accrued with the amount allowed by the CBA to determine if employees were being provided with the appropriate accrual amounts and whether the leave indicated on the timecards was properly entered on the leave records. We question whether one employee was being given leave accruals for which he was not eligible, and two employees accrued less hours of leave than they were entitled to. We also found that certain employees may have overaccumulated leave accruals and, in some instances, been provided with cash payments for vacation leave accruals to which they may not have been entitled as follows:

- New Employee Leave Accruals – One employee, hired in November 2014, was credited with two days of personal leave (16 hours), even though the CBA specifies that an employee who is hired after the first day of January will be credited with personal leave prorated by the number of months worked in the first calendar year of employment. Therefore, we believe that this employee should have received 3.62 hours instead of the 16 hours credited, costing the Town an additional \$280 in salary.

⁴ The Town employed two secretaries during the audit period. The first secretary left Town service in March 2015, and the second was employed from March 2015 through the end of our fieldwork.

The CBA also provides that new employees are not allowed to use vacation leave prior to six months of continuous service. The above employee was allowed to use 54.5 hours of vacation prior to six months of continuous service, beginning in his fifth week of employment.

- Accrual shortages – After four years of continuous service, employees accrue vacation leave at a rate of 2.31 hours per pay period, which equals 120 hours each year. Two employees were hired in 2009 and completed their four years of continuous service in 2013. At that point, vacation leave accruals should have increased to the 2.31 hours per pay period. However, vacation leave accruals were not increased until after five years of continuous service. As a result, these employees did not receive 40.04 hours of vacation leave to which they were entitled.
- Accumulated Vacation Leave – The CBA allows employees to accumulate a maximum of 160 hours of vacation leave. Any hours in excess of the maximum will be canceled, unless the excess is being carried through no fault of the employee. Three employees were allowed to accumulate more than the maximum hours and carried those balances for between eight to 15 months. None of these employees' excess hours were canceled, and there was no documentation that the employees were denied requests for vacation leave.
- Annual Buy-Back – According to the CBA, employees may elect to receive cash payment for up to 96 hours of accumulated vacation leave during any calendar year. Two employees opted for the buy back during the audit period. One employee was allowed to buy back 166 hours of vacation leave in 2014 and 100 hours in 2015 (through June 30, 2015), which was in excess of the allowed buy-back hours for both years. The overpayment totaled \$1,885.
- Leave Accrual Errors⁵ – We found 13 computation errors on the leave records (12 in 2014 and one in 2015). For example, in one case, 40 hours of sick accruals were changed to 40 hours of vacation accruals for an employee in 2014 without an explanation as to why the accruals were changed from sick accruals to vacation accruals. Also, there were 46 instances when timecards showed an employee worked less than eight hours but no leave time was charged on the employee's leave accrual records.

⁵ These errors covered all Department employees and all leave types (i.e., sick, vacation and personal leave).

In 11 instances, leave time charged when added to the time listed as worked by the employee made the employee's total workday hours more than eight hours. In four other instances, the leave time charged when added to time listed as worked for the day by the employee resulted in the employee's workday hours totaling less than eight hours. The total value of these errors was \$3,725.

Due to these errors, we recalculated each employee's leave balances to identify the cumulative effect. Four employees had 148.85 more hours recorded in their leave records than they were entitled to (valued at \$3,597). Five employees were not credited with 54.41 leave hours (valued at \$1,351) to which they were entitled to.

Accurate leave records are also important for ensuring that Department employees are compensated with the correct amounts to which they are contractually entitled.

Seasonal Employee

The Department employed one seasonal employee, the Superintendent's son, during a portion of our audit period,⁶ who worked during winter months to assist in snow removal and sanding. The seasonal employee's hours generally coincided with those of the Department employees who were called out due to poor road conditions. Department employees use a time clock to track their time. However, the seasonal employee used handwritten timesheets that were submitted with a photocopied signature.

According to the CBA, "an employee who is called out for duty that is in addition to, and does not attach to, the employee's regular working hours, will be paid for a minimum of four hours whether or not the employee actually works the full four hours. The time shall begin from the time the employee reports to work." Based on our review of the CBA, it is our understanding that seasonal employees are not part of the bargaining unit and are not eligible for the benefits provided to union employees. We also did not find any resolution or local law providing that the seasonal employee was entitled to a minimum of four hours each time the employee was called into work.

We reviewed all employee timesheets and found that the seasonal employee worked on 49 occasions during our audit period. This individual was paid a minimum of four hours each time he was called into work. However, because this employee's time sheets, in some cases, were incomplete or inaccurate, the Town has no evidence that this individual worked a minimum of four hours each time he was

⁶ The seasonal employee left Town service in March 2014.

called to work. This may have resulted in the seasonal employee receiving \$1,350 for 54.4 more hours than he was entitled to because the employee was paid a minimum of four hours each time the employee was called into work.

The Department maintains a detailed winter call list showing when employees and contractors are called out. We compared the seasonal employee's timesheets to the list and the timecards of full-time Department employees and found that he was paid for eight hours on two days that were not listed on the winter call list. On 10 days that his time sheets report that he worked, the seasonal employee was paid a four-hour minimum. However, the seasonal employee's time sheet did not include an end time for each of those days. Because other Department employees who worked those same days reported working less than four hours, we question whether the seasonal employee worked a minimum of four hours on each of those days.

Because the seasonal employee's time records were not always accurate, the Town may have paid more hours than he was entitled to.

Recommendations

Town and Department officials should:

3. Develop written policies or procedures regarding how hours worked are to be recorded consistent with CBA provisions, in consultation with the Town's legal counsel, as necessary.
4. Confirm that overtime is adequately documented according to the CBA and that employees receiving overtime pay report to work and document their presence on their timecards.
5. Ensure that accurate Department leave time records are maintained, monitored and periodically reconciled with the timecards.
6. Ensure that leave time balances do not exceed the maximum allowed and cash buyouts of accrued vacation leave are made in accordance with the CBA.
7. Investigate the questionable payments identified in this report, correct accrual balances, as appropriate and in consultation with the Town's legal counsel, and determine whether to seek reimbursement for any overpayments.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

The officials' response letter refers to an attachment that supports the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

TOWN OF ROCHESTER

50 Scenic Drive • P.O. Box 65 • Accord, NY 12404
Area Code 845

Town Clerk 626-7384
Supervisor 626-3043
Highway Dept 626-7221
Assessor 626-0920
Transfer Station 626-5273



Code Enforcement 626-2433
Planning Board 626-2434
Zoning Board 626-2434
Court House 626-2522
Youth Commission 626-2115

June 3, 2016

Tenneh Blamah, Chief Examiner
NYS Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Chief Examiner Blamah,

Please consider this letter to be the Town of Rochester response to the preliminary draft report of the audit of the Town of Rochester covering fiscal years 2010 through 2015 by the NYS Comptroller's Office. First, please allow me to express my gratitude for the helpfulness and the professionalism of your staff. Our primary contact was very helpful and it was a great learning experience largely because of her efforts to discuss best practices. My greatest regret is that this audit did not occur over 8 years ago when I first requested it upon first entering the office of supervisor. Back then I was told that audits were not done on request unless there was a problem and that it would probably be some time before we would be audited by your office. Never the less it is never too late to learn how to better serve those who we are elected to serve.

I am largely in agreement with much of the findings presented in the draft audit report. However I am in disagreement on the causation of the use of unallocated fund balance against the General Fund tax levy. While I do agree that there have been some errors resulting in over estimated revenue projections, the use of unallocated fund balance against the general fund tax levy was not resultant of those projections. This audit only covers the years of 2010 through 2015. Further inspection would show that the budget I inherited back in 2008 used \$300,000 of unallocated fund balance to offset the general fund tax levy. Back at the time that budget was created the economy was much better, the unallocated fund balance was quite high, and revenues such as mortgage tax were actually coming in well above budget projections. It could be argued that what my predecessor and her town board by using unallocated fund balance to offset the general fund tax levy

See
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was a good thing to do. One could argue that the money belongs to the taxpayers so why hoard it and it is better in their pockets than in the government's coffers. However, as you so eloquently explained, it is unwise to unallocated fund balance to pay recurring expenses. Sooner or later you will run out of unallocated fund balance to use as such.

I entered office in 2008 at the same time our country had entered into a deep and severe recession. I watched as revenue streams dried up while expenses continued to rise. That \$300,000 use of unallocated fund balance for the 2008 General Fund Budget automatically created a hole for the 2009 General Fund Budget. Tax payers were suffering at the time while other revenue streams were drying up and expenses were rising (safety-net welfare which towns in Ulster County were paying for during the audit period had risen from \$35,000 to \$200,000 until we fought for and received relief from the county during the audit period). That use of fund balance represented almost 20% of the budget and I did not consider raising taxes at the time as an option because people were suffering. We were stuck in a dilemma. What we ended up doing was reducing the amount of unallocated fund balance over time being used to offset the tax levy until we were not using any. Of course this has depleted the unallocated fund balance to a point which is unacceptable but at least we arrived at as soft of a landing as possible to get out of the quagmire created by using the unallocated fund balance against the tax levy. At the same time we have actually reduced the size of the General Fund Budget since I took office in 2008 through budget year 2016 through finding efficiencies and cost savings wherever possible. It was quite a challenge as we have faced rising expenses such as double digit annual health insurance premium increases for our employees and increased mandatory NYS Retirement employer contributions just to name a couple of items. It is our hope that we will be able to continue to find savings wherever possible and continue providing services to our residents while still holding the line on taxes and begin to build of fund balance to an acceptable level.

I concur with you figures for the Highway Fund deficit and the spending which caused the deficit each year. We have discovered that there was an error in the accounting by the Highway Office in which the cost of highway employee benefits were not being used in the calculations. This has been corrected and the town board is working together with the Highway Superintendent to accurately track both expenses and expected revenues. Monthly budget reports are made available to the board and we have now passed a resolution calling for placing the budget projections versus actual expenses and revenues for both the highway and general funds quarterly on the audit agenda in order to track fiscal performance. We will also try pay greater attention to historical performance of revenue streams during the budget development process.

Your comments concerning the Highway Fund Payroll were of particular concern and eye opening to me and my colleagues on the Town Board. We have met with our attorney and with the Highway Superintendent concerning the issues

which were highlighted in your draft audit report. We have passed and are implementing several resolutions to rectify the issues which were brought up in the audit. I am attaching certified copies of the resolutions passed at our June 2, 2016 Town Board Regular Business meeting to address the problems which you have highlighted for us. I am currently in the process of implementing remedies to the problems you have found concerning Highway Department Payroll which will insure that employees will only be paid for hours actually at work as per the collective bargaining agreement and that accrual of vacation, sick and personal time be monitored and verified. Furthermore we are implementing controls for proper authorization and accountability for overtime. We also concurred with your finding that the Deputy Highway Superintendent should only be paid for time that he is actually working and not for being "on call". The stipend that he receives is compensation for being "on call" as that is part of being the Deputy Highway Supervisor. While we understand the Highway Superintendent's reasoning for paying his employees will sending them home during periods of long winter storms to keep them from driving excessive hours as per DOT regulations, we realize that this is not a proper practice and are working on cost effective and safe solutions to tackle this challenge. We also concur that seasonal or part-time employees are not part of the collective bargaining agreement and thus will not receive the same guaranteed minimum hours as full time CBA employees enjoy.

Again I would like to thank your office for the courtesy extended and knowledge shared with us. It has been a learning experience and I believe our town will be better served by all of what we have learned.

Most Sincerely,

 Carl J. Chipman
Supervisor

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

A structurally balanced budget is based on historical or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. An appropriation of fund balance is the use of unexpended resources from prior years to finance budget appropriations and is considered a one-time financing source. The Board did not adopt structurally balanced budgets over the past five years (2010 through 2014), which resulted in planned operating deficits and diminished fund balances.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed Board minutes to gain an understanding of the Town's budget process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund and highway fund for the period January 1, 2010 through June 30, 2015.
- We compared the adopted budgets to actual operating results to determine if the budget assumptions were reasonable.
- We reviewed revenues and expenditures to identify significant variances and analyze trends and projected 2015 general and highway fund operating results.
- We tested the reliability of the accounting records by reviewing bank statements and canceled checks and compared them to Town's financial records.
- We traced the payroll hours of Department employees to supporting timecard and time sheets for to determine if payroll reflected the hours worked and followed the CBA.
- We traced the overtime hours from payrolls to approved timecards and time sheets and to supporting documentation to determine if overtime was appropriate, approved and followed the CBA.
- We traced leave time charged from timecards to time and attendance records to verify the accuracy of records and to determine if the leave accruals followed the CBA.
- We traced the payroll checks to the bank statements and canceled check images to determine payroll accuracy.

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

APPENDIX D

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