



Village of Cambridge

Payroll

Report of Examination

Period Covered:

June 1, 2013 — December 31, 2014

2015M-74



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustees 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 Village of Cambridge, 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 Village of Cambridge (Village) is located in the Town of Cambridge in Washington County and has approximately 1,870 residents. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's operations. The Village Treasurer (Treasurer),¹ who is appointed by the Board, is the chief fiscal officer and is responsible for the receipt, disbursement and custody of Village money, as well as maintaining the accounting records.

The Village provides various services to its residents, including street maintenance and improvements, snow removal, fire and police protection and general government support. The Village's budgeted appropriations for the 2014-15 fiscal year were approximately \$1.28 million, funded primarily with real property taxes. The Village had 74 employees and payroll expenditures totaled approximately \$718,000 during our audit period.

Objective

The objective of our audit was to determine if Village 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?

Scope and Methodology

We examined the Village's payroll records for the period June 1, 2013 through December 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 Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

¹ The Village had two Treasurers during our audit period. The current Treasurer began employment on August 13, 2013 and the former Clerk-Treasurer was employed from the beginning of our audit period through December 3, 2013.

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 Village Clerk's office.

Payroll

The Board and Village officials are responsible for establishing internal controls over payroll. Good controls include establishing 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 that employees are paid at Board-approved pay rates and that time worked and leave time earned and used are properly documented, monitored and controlled. In addition, Village 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.

The Board and Village officials' failure to perform procedures as directed by the Board-adopted payroll policy² and the Village's personnel booklet³ and failure to establish comprehensive written policies and procedures for leave time accruals has resulted in a lack of segregation of duties and lack of sufficient compensating controls. As a result, employees received compensation at pay rates that were not Board-approved. In addition, nine employees did not receive the correct gross pay during the 2013-14 fiscal year and three employees did not receive the correct gross pay during the 2014-15 fiscal year, resulting in combined overpayments totaling \$4,922 and combined underpayments totaling \$92 to these employees. Furthermore, employees' leave accrual records were not accurately maintained, which contributed to these overpayments. This also resulted in employees' leave accrual balances being overstated by 11 hours, valued at \$188, and understated by 169.25 hours, valued at \$2,815, as of December 31, 2014.

Payroll Processing

A well-designed system of internal controls over payroll processing requires that the Board and Village officials establish policies and procedures that provide guidance and oversight for employees who process payroll. It is important that one individual is not responsible for the entire payroll processing function. If segregating duties is not feasible because of the Village'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

² Adopted by the Board on August 7, 2013

³ The Village of Cambridge Personnel, Policies and Benefits booklet as amended on January 4, 2007

are adequately certified. The Board is also responsible for establishing employee salaries and wages in written labor agreements or Board resolutions.

Due to the Village's limited staffing, payroll duties were not adequately segregated. The Treasurer⁴ 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, the Treasurer was responsible for printing and signing payroll checks, preparing and executing the employees' direct deposits and reconciling the payroll bank account. The Treasurer performed all of these duties with limited oversight.

Although the Board adopted a payroll policy that included oversight procedures to mitigate the risk resulting from a lack of segregation of duties, these procedures were never performed. For example, the Mayor and a Trustee did not review the pay rates for all employees prior to disbursement of the first payroll of the fiscal year to ensure that the employees' pay rates were correct as outlined by the policy. In addition, a Trustee did not review the payroll registers at least quarterly to ensure that the pay rates, the hours worked and each individual receiving a payroll payment were reasonable, as outlined by the policy. Furthermore, the Mayor's certification of payroll was not adequate because she did not receive a payroll register to compare with payroll source documents (i.e., time records) to ensure that payments were based on the actual hours or days worked and Board-authorized hourly rates or annual salaries. Instead, the Mayor's certification of payroll consisted of reviewing employees' time sheets for the pay period and counter-signing payroll checks.

Because of these weaknesses, we traced the names of 15 individuals⁵ who received payroll payments during our audit period to personnel files to verify they were legitimate Village employees. We did not identify any discrepancies. In addition, we reviewed all payroll payments totaling \$513,719 made to 15 employees⁶ during our audit period and found that the Board did not formally approve the hourly rates of pay used to compensate five employees⁷ or the health insurance

⁴ During our audit period, payroll was processed by the former Clerk-Treasurer from June 1, 2013 through August 12, 2013 and by the current Treasurer from August 13, 2013 through December 31, 2014.

⁵ We used a computerized random number generator to select 15 individuals in the payroll system who received a payroll payment during our audit period.

⁶ Appendix B contains our sampling methodology.

⁷ The hourly rates of pay for a full-time police officer and a part-time Department of Public Works employee for the 2013-14 fiscal year and the hourly rates of pay for the current Treasurer and two part-time police officers for the 2013-14 and 2014-15 fiscal years

buyout payments totaling \$4,533⁸ made to the Chief of Police. In addition, we found that the former Treasurer was paid \$1,227 for 70 regular hours of work during one pay period and the current Treasurer was paid \$2,527 for 160 regular hours of work during four pay periods in the 2013-14 fiscal year, but Village officials could not provide us with time sheets documenting that the employees worked these hours.

We also found that nine employees in our sample did not receive the correct gross pay during the 2013-14 fiscal year and three employees did not receive the correct gross pay during the 2014-15 fiscal year, resulting in combined overpayments totaling \$4,922⁹ and combined underpayments totaling \$92¹⁰ to these employees. Some of the errors occurred because incorrect pay rates were used and the employees were paid for hours that differed from the work hours recorded on their time sheets. However, most of the errors occurred because employees were paid for leave time that they were not entitled to. For example, the former Clerk-Treasurer was paid for 141 hours of unused sick leave time that she had accrued upon her resignation from the Village. However, the Village's personnel booklet did not contain a provision authorizing the buyout of unused sick leave time, resulting in this employee being overpaid by \$2,472. In addition, an employee was paid for 32 hours of vacation leave time during 2013-14 and 50 hours of vacation leave time during 2014-15 that the employee had not accrued, resulting in the employee being overpaid \$628 and \$1,001, respectively.

Because Village officials did not provide adequate oversight of the payroll process, employees were both overpaid and underpaid. In addition, because the Board did not establish, document and approve pay rates for all Village employees, Village officials have no way to determine if these employees were paid at the correct pay rate. The significant number of deficiencies we identified indicates that the Village's payroll process requires improvement.

Leave Accruals

A good system of accounting for employee leave time (i.e., vacation and sick leave) requires Village officials to periodically verify the accuracy of employee leave records with regard to leave time earned and used. The Board and Village officials should establish comprehensive policies and procedures to help ensure that periodic independent reviews of leave accrual records and balances are performed. Village officials should also ensure that Village personnel properly calculate and deduct leave time used from employee leave

⁸ The Chief of Police's biweekly payroll payments during our audit period each included \$110.55 for a health insurance buyout payment.

⁹ Overpayments totaled \$3,736 during the 2013-14 fiscal year and \$1,186 during the 2014-15 fiscal year.

¹⁰ Underpayments totaled \$82 during the 2013-14 fiscal year and \$10 during the 2014-15 fiscal year.

accrual balances and that leave is earned in accordance with Village policies and Board resolutions.

Although the Village's personnel booklet contained procedures related to the maintenance of employees' leave accrual records, the procedures were insufficient because they were not comprehensive and did not provide effective internal controls. For example, the procedures did not provide for periodic independent reviews of leave accrual records and balances. In addition, the Treasurer did not maintain leave accrual records for Village employees as directed by the procedures. Instead, the maintenance of leave accrual records was decentralized – each department was responsible for accounting for its employees' leave accruals. Consequently, we found that leave accrual records were not maintained for the Chief of Police, a police sergeant and a police officer during our audit period,¹¹ although they earned and used leave time. Because the Chief of Police has been employed by the Village for over 16 years, the Village could have a significant liability for the leave time that he has accrued and is entitled to. In addition, the former Clerk-Treasurer, current Treasurer and current Clerk maintained their own leave accrual records with no oversight.

We reviewed all employees' leave accrual records¹² during our audit period to verify that the leave time employees recorded on their time records was properly deducted from their leave accrual balances. We also verified that the amounts of leave credited and carried forward during the 2013-14 and 2014-15 fiscal years agreed with the Village's personnel booklet. We found errors for seven of the eight employees for which leave accrual records were maintained and some employees had more than one error. For example:

- Six and one half hours of leave time were deducted from two employees' leave accrual records when the time records indicated these employees were at work.
- Conversely, 49 hours of leave time were not deducted from three employees' leave accrual records when the time records indicated these employees used leave.
- Six employees were not credited with 194.25 hours of leave time to which they were entitled.

¹¹ These three employees were hired by the Village on June 2, 1998, June 12, 2012 and November 5, 2014, respectively.

¹² The former Clerk-Treasurer, current Treasurer, current Clerk, six full-time Police Department employees and two full-time Department of Public Works employees earned and used leave during our audit period. Because leave accrual records were not maintained for the Chief of Police, a police sergeant, and a police officer during our audit period, we did not include them in this review.

- Three employees were credited with 32 hours of leave time to which they were not entitled.

These errors occurred during several pay periods throughout our audit period. Furthermore, one employee did not have 40 hours of unused vacation leave carried over on his anniversary date to which he was entitled and another employee had 13 hours of unused vacation leave carried over on her anniversary date to which she was not entitled.

The cumulative effect of these errors was that three employees were paid for 48.50 hours of leave time to which they were not entitled, resulting in overpayments totaling \$776. In addition, as of December 31, 2014, employees' leave accrual balances were overstated by 11 hours,¹³ valued at \$188 and understated by 169.25 hours,¹⁴ valued at \$2,815.

Accurate leave records are essential in determining the proper amount of payments that are due to employees when they retire or resign from their positions and ensuring that Village employees are compensated for the correct amounts to which they are contractually entitled. The number of errors identified during our testing indicates that the Village's process for maintaining leave accrual records needs improvement.

Recommendations

The Board should:

1. Implement compensating controls to address the lack of segregation of duties within the payroll process. Such controls include ensuring that oversight procedures are performed as directed by the Board-adopted payroll policy and increasing management reviews of work performed by the Treasurer.
2. Ensure that all pay rates and compensation paid to employees are properly authorized, approved and provided pursuant to the Village's personnel booklet or Board resolutions.
3. Ensure that the Treasurer maintains leave accrual records for all employees that earn and use leave time, as directed by the Village's personnel booklet.

¹³ Two employees' sick leave balances were overstated by a combined total of five hours and one employee's holiday leave balance was overstated by six hours.

¹⁴ Two employees' vacation leave balances were understated by a combined total of 41.50 hours, three employees' sick leave balances were understated by a combined total of 47.50 hours, one employee's holiday leave balance was understated by eight hours and one employee's compensatory leave time balance was understated by 72.25 hours.

4. Ensure that an individual independent of the maintenance of leave records periodically reviews leave accrual records and balances for accuracy.
5. Ensure that employee leave benefits coincide with the Village's personnel booklet provisions.
6. Review employee time records and take action to recover overpayments or reimburse any underpayments, as applicable.

The Mayor should:

7. Compare payroll registers to payroll source documents when certifying payrolls to ensure that payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries. The Mayor should complete this certification before the Village makes the corresponding payroll payments.

The Board and Village officials should:

8. Establish a comprehensive leave accrual policy that incorporates the duties, records and procedures to be followed when maintaining leave records.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



June 23, 2015

Response to Village of Cambridge OSC audit report

As Chief Executive Office for the Village of Cambridge, I have reviewed the report examination for the period of June 1, 2013 through December 31, 2014. Based on the information in the report I do not find any discrepancies with the report or the auditor's findings.

Sincerely,

CARMAN A. BOGLE
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if Village officials established effective internal controls over payroll for the period June 1, 2013 through December 31, 2014. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials and employees and we reviewed Village policies, the Village's personnel booklet, Board resolutions and various financial records and reports to gain an understanding of the internal controls in place over payroll processing and maintaining leave accruals, and we documented any associated effects of deficiencies found in those controls.
- We traced the names of 15 individuals who received payroll payments during our audit period to personnel files to verify they were legitimate Village employees.
- We reviewed all payroll payments made to a sample of 15 employees during our audit period to verify whether the information entered into the payroll system agreed with the time records, pay rates agreed with Board resolutions and gross pay was calculated correctly. Our sample consisted of first selecting the two employees who were involved in processing payroll, the six full-time Police Department employees and the two full-time Department of Public Works employees. We then used a computerized random number generator to select five other employees who received payroll payments during our audit period, for a total of 15 employees.
- We reviewed all employees' leave accrual records during our audit period to verify that the leave time recorded on their time records was properly deducted from their leave accrual balances. We also verified that the amounts of leave credited and carried forward during the 2013-14 and 2014-15 fiscal years agreed with the Village's personnel booklet.

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.

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