



Town of Shandaken

Payroll

Report of Examination

Period Covered:

January 1, 2012 — January 31, 2013

2013M-201



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

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 Shandaken, 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 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 Shandaken (Town) is located in Ulster County and has a population of about 3,100. The Town is governed by a Town Board (Board) that includes the Town Supervisor (Supervisor) and four Board members. The Supervisor serves as the chief executive officer, chief fiscal officer, and budget officer. The Board appointed two full-time secretary/bookkeepers and one part-time secretary/bookkeeper who assist the Supervisor with maintaining the Town's financial records.

The Town provides various services, including highway maintenance and snow removal, a public library, water services, and general government support. The Town's general fund expenditures for the 2012 fiscal year totaled \$3,035,009, of which \$1,574,274 was for payroll-related expenditures. The Town's expenditures are funded primarily with revenues from real property taxes, sales tax, and State aid.

Payroll is processed by a paid third-party vendor. The Secretary to the Highway Superintendent (Secretary) was responsible for submitting the Highway Department's payroll weekly to the vendor and one of the two water district payrolls monthly. The part-time secretary/bookkeeper was responsible for calling in the general fund payroll bi-weekly and the other water district payroll monthly. The Highway Superintendent (Superintendent) certifies the Highway Department payroll and the Supervisor certifies the general fund and water district payrolls. The Secretary was suspended from Town employment on January 30, 2013, pending the investigation of payments she made without approval.

Objective

The objective of our audit was to assess the Town's payroll process. Our audit addressed the following related question:

- Did the Board ensure that Town employees were accurately paid Board-approved wages and salaries?

Scope and Methodology

We examined the Town's payroll process for the period January 1, 2012, to January 31, 2013. We expanded our scope to examine unauthorized payments for the period January 1, 2007, to January 31, 2013.

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

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Local officials generally agreed with our recommendations and indicated that they planned to take, or have already taken, 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 Town Board to make this plan available for public review in the Town Clerk's office.

Payroll

Board members are the Town's fiscal stewards responsible for directing and overseeing the Town's financial activities. The Board is responsible for establishing and approving all wages paid to Town employees. The Supervisor, acting as the chief financial officer, is responsible for processing, recording, and distributing payments to employees. Because payroll and fringe benefits represent a significant cost to the Town, it is imperative that the Board ensure that Board-approved wages are processed and paid correctly.

All employees should complete and sign (certify) a timesheet or use a machine-punched time card documenting time worked, including starting and ending times of their shift/work-day. Timesheets should be verified and signed by employees' immediate supervisors before being submitted for processing. These time records serve as the basis for employees to receive payment for time worked. It is important that Town officials ensure and monitor employees' compliance with timekeeping policies and procedures.

The Secretary paid herself \$5,538 that she was not authorized to receive and paid her husband, a Highway Department employee, \$1,800 that he was not authorized to receive. We have referred our report to the proper authorities so that they could take appropriate action. Additionally, employee healthcare contribution rates were miscalculated, resulting in employees paying incorrect amounts for their healthcare benefits. These discrepancies occurred and were not detected because no one reviewed the Secretary's work to ensure that it was accurate. In addition, we found errors in general fund employee payroll payments aggregating \$2,484: \$1,211 in over-payments and \$1,273 in under-payments, because the number of hours worked were miscalculated. These errors were not caught by the part-time secretary/bookkeeper when processing the records for payroll.

Unauthorized and Incorrect Compensation

The Board is responsible for establishing employees' salaries and benefits in formal agreements or resolutions that address each position's pay rate or salary, number of work hours, and health insurance contribution rates. Where certain positions are temporary, the Board must specify the period of time for which such a position is in effect. Any changes to salaries and benefits must be Board-authorized and such authorizations must be documented. These controls help ensure that employees are properly paid and provided the benefits to which they are entitled.

Unauthorized Payments — The Secretary’s duties included bookkeeping for the Highway Department and water district, preparing monthly retirement reports, and calculating health insurance contributions. The Board authorized the Secretary’s hourly wage rate for her Highway Department responsibilities. She was paid a monthly stipend for her water district bookkeeping duties, preparing retirement reports, and calculating employees’ health insurance.

We reviewed all 116 payroll payments made to the Secretary for the period of January 1, 2012, to January 31, 2013, and found that she received gross compensation totaling \$43,765. Of that amount, \$5,538¹ exceeded the Board-authorized salary and wages; these 19 additional paychecks were from the Highway Department for “other earnings.”² The Secretary told us that this compensation was for her work preparing Federal Emergency Management Agency (FEMA) claims on behalf of the Town for damages sustained from Hurricane Irene. Both the Supervisor and Superintendent told us that the payments were not authorized. The Superintendent stated that he told the Secretary that the FEMA reimbursement was for the Town, not employees. In light of the unauthorized payments, we reviewed all payroll-related payments received by the Secretary since January 1, 2007, and found that she also received “other earnings” totaling \$3,432 for preparing FEMA claims in 2007.³

In addition, we traced the hours submitted for the Secretary and her husband, who is a Town employee, to the hours reported on their time cards for the audit period. Together, they were paid for 15.2 hours of overtime not worked, for a combined total of \$388 during the audit period. The Secretary also incorrectly reported her hourly wage rate for 2011, 2012, and 2013⁴ to the payroll processing company, which resulted in her receiving \$286 more than she was entitled to for this period.

We also reviewed the payroll payments totaling \$56,020 made to the Secretary’s husband for the period January 1, 2012, to January 31, 2013 and found that he received gross compensation totaling \$1,800⁵ in addition to his regular pay. The Supervisor and Superintendent could not provide a reason for the additional payments. The Secretary’s husband declined to meet with us to explain the additional \$1,800 payments he received. The Superintendent’s failure to review the

¹ Nineteen weekly paychecks dated September 13, 2012, to January 17, 2013

² Also referred to on payroll journals as “hourly earnings” or “salary earnings”

³ Twelve weekly paychecks dated January 18, 2007, to December 13, 2007

⁴ 2011 Board approved rate was \$11.94, rate paid was \$12.00; 2012 Board approved rate was \$12.18, rate paid was \$12.24; 2013 Board approved rate was \$12.18, rate paid was \$12.36

⁵ Four weekly paychecks dated March 22, 2012, to April 19, 2012

payroll reports prior to distributing paychecks contributed to these undetected payments.

Finally, to verify that Town employees were compensated at authorized pay rates, we tested the pay rates for 13 employees.⁶ Four employees were collectively under-paid \$401 based on incorrect pay rates for the audit period. For example, a highway employee covered by a collective bargaining agreement (CBA) was entitled to be paid the higher mechanic rate of pay in an out-of-title position but was not. We also found the hourly rate of pay for the paramedics, whose rates are set by the Board on a per-shift basis, was miscalculated by the Ambulance Administrator. If, during the payroll certification process, the Supervisor and Superintendent had verified the rates to the Board minutes and CBA, they would have discovered the incorrect pay rates.

Health Insurance Contributions — The Town offers health, dental, and vision insurance coverage at a reduced cost to employees. Employees who opt for coverage are responsible for paying a portion of their healthcare premium costs. These contribution rates are set by either the employee handbook or CBA. The Town also offers supplemental insurance benefit coverage. Employees who opt for supplemental insurance coverage are responsible for the cost of their supplemental insurance premiums. The Secretary was responsible for calculating Town employees' healthcare and/or supplemental insurance benefit contribution amounts to be withheld from employee paychecks based on their coverage.

We randomly selected and reviewed 10 of 48 employees' contribution calculations for the 2012 fiscal year to determine if contribution amounts were properly withheld from employee paychecks. The calculation and withholdings made from eight of the 10 employees were incorrect, totaling approximately \$9,900. The Secretary deducted a total of \$3,367 more than should have been deducted from three employees'⁷ salaries and did not deduct a total of \$6,525 from five employees.⁸ In addition, we found that the Secretary under-paid her share of premium costs by \$8,847 for her insurance coverage for the period from January 2007 through January 2013.

Employees did not pay the correct contribution amounts for their health insurance coverage because neither the Supervisor nor the Board monitored the Secretary's duties or verified her calculations.

⁶ Our test sample comprised five ambulance technicians, three police officers, and five highway employees. See Appendix B, Audit Methodology and Standards, for details on our sample selection.

⁷ One general employee and two highway employees; amounts of overpayment ranged from \$52 to \$1,960

⁸ The Superintendent, three general employees, and one highway employee; amounts of underpayment ranged from \$151 to \$4,779.

As a result, the Town had to supplement the amounts paid to the benefit providers.

Time and Attendance Records

The Town's employee handbook requires employees to complete a time record showing the daily hours worked, including the beginning and ending times. The time record must be verified and signed by the department head. The Supervisor, Ambulance Administrator, and Police Chief, as department heads, are responsible for overseeing and verifying the time worked by the employees in their respective departments. Each department uses differing procedures for time and attendance.

We reviewed the time and attendance records for all 28 payrolls for the audit period totaling \$118,697 for a judgmental sample of five of the 27 ambulance employees⁹ to determine whether employees received the proper pay for time worked. Time records were inaccurate for 28 percent of our sample, with errors totaling \$2,484: \$1,211 in over-payments and \$1,273 in under-payments. The errors were caused by inaccurate totaling of the employees' hours used to calculate their pay amounts. These errors were not caught by the part-time secretary/bookkeeper when processing the records for payroll. For example, a mark on an employee's timesheet was mistaken for a number "1"; consequently, an extra 100 hours was reported, and the employee was over-paid for hours not worked totaling \$563.

We reviewed all 16 of the Highway Department employees' timecards for 2012 and January 2013 and found that none of the 64 timecards for January 2013 were signed by the Superintendent. The Superintendent told us that he had not yet checked these time cards. Without timely verification of hours worked, employees could be paid for hours not worked.

Recommendations

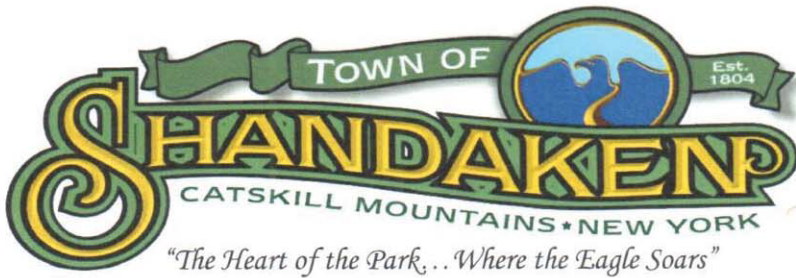
1. The Board and Town officials should monitor the Secretary's and secretary/bookkeeper's duties, and audit disbursements, including payroll, made to employees.
2. The Board should consult with the Town attorney about possible recovery of the unauthorized payments received by the Secretary.
3. The Supervisor and Superintendent should certify the payroll by reviewing the payroll details prior to payment, including periodically reviewing salaries and hourly wage rates to ensure that they match Board-approved amounts, before pay checks are distributed.

⁹ See Appendix B, Audit Methodology and Standards, for details of our sample selection.

4. The Supervisor should ensure employee withholding amounts are accurate. Town officials should consult with the Town attorney about possible recovery of the unpaid contribution amounts from employees who under-paid, as well as reimbursement of the amounts over-paid by other employees.
5. The Board should enforce the established policy to ensure that all Town employees complete a time record and that employees' time sheets/cards have supervisory approval prior to processing the payroll.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



www.shandaken.us

September 20, 2013

Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive Suite 103
New Windsor, NY 12553

RE: Town of Shandaken Audit Response

Dear State Comptroller's Office,

This letter shall serve as the Town of Shandaken's Audit Response to the Report of Examination received by the town on August 21, 2013.

The Town concurs with most of the findings in the examiner's draft report. The Supervisor and Highway Superintendent recognize the need for more detailed oversight, especially in light of the misappropriations alleged to have taken place under the control of the Highway Superintendent's Secretary who was responsible for Highway Payroll recording and reporting in addition to calculating payroll contributions for all Town employee's eligible for Health Care through the Town's Insurance providers. We state "alleged" because although charges have been filed by the Town it still remains unresolved through the judicial process.

We write this response with your understanding that local elected officials, especially in rural areas, are beholden to mandated procedures that they may not be aware. We mostly rely on historical procedures in processing municipal fiscal activities. Concerning the oversight of payroll, and as has been illustrated in the examiner's report, these activities had occurred in the Town of Shandaken over a period of several years. Although ignorance is no justification, myself, the Town Board, the Highway Superintendent and employees appreciated the examiner's time and candor in educating us as to the appropriate oversights necessary to ensure protection of the public's interest. Both the Highway Superintendent and I had previously engaged in payroll oversight through a process where we reviewed totaled salary sheets which we used to examine our "bottom lines" to ensure that we were within budgetary constraints. We are now well aware of the issues that can arise under such protocols.

We will illustrate in detail, in our Corrective Action Plan (CAP) being sent following this Audit Response letter, the corrective measures the Town has already undertaken and implemented to rectify the issues represented in the examiner's report and recommendations. Additionally, internal control measures will also be illustrated in our CAP ensuring multiple layers of controls and oversights pertaining to Payroll and Health Care contributions.

The Town of Shandaken thanks your office for the assistance in uncovering these discrepancies and helping us to create administrative protocols to ensure that these oversights continue through future administrations. We also appreciated the examiner and assistant examiner for their courteousness and demeanor while conducting this examination. Their demeanor made the processes of investigation and rectification simple to understand and implement in an efficient manner.

Sincerely yours,

Robert A. Stanley
Supervisor – Town of Shandaken

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Justice Court: (845) 688-5005
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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if Town employees were accurately paid Board-approved wages and salaries. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed Town officials and tested selected records and transactions, examined pertinent documents, and performed the following procedures:

- We reviewed the payroll certifications for the audit period for appropriate signatures. We compared Board-approved pay rates for each employee to the payroll records for the audit period and documented any differences in the rate.
- We compared 13 employees' pay rates to Board-approved rates. We chose a judgmental sample based on observations from our preliminary testing: the Ambulance Administrator, who approved his own timesheet, three ambulance technicians and paramedics with timesheet errors, one non-member Ambulance employee identified during our retirement reporting review, two part-time employees and one full-time employee from the Police Department, four Highway Department employees with similar names (as there is an increased likelihood that mistakes could be made in calculating their payroll), and one Highway employee based on the Superintendent's informing us of an error in out-of-title pay.
- We verified contribution rates supplied by an insurance services representative to actual insurance invoices for medical, dental, and eye care.
- We calculated the contribution amount in accordance with the level of coverage and compared the calculated contribution amount to the actual withholdings.
- We reviewed the vouchers to determine the amount each employee was responsible for paying.
- We reviewed every payroll from January 1, 2007, to January 31, 2013, and documented "other earnings" paid.
- We reviewed the check images of 31 payments related to "other earnings."

We conducted this performance audit in accordance with generally accepted government auditing standards (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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Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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