



# Town of Johnstown Payroll

## Report of Examination

Period Covered:

January 1, 2013 — December 31, 2013

2014M-55



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 Johnstown, 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Town of Johnstown (Town) is located in Fulton County and has a population of approximately 7,100 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Supervisor and four council members. The Board is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations. The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Town provides a range of services to its residents including highway maintenance and snow removal, a Justice Court, water and sewer services and fire protection. The Town's 2013 budget appropriations were approximately \$3.5 million and were funded primarily with real property taxes, sales tax and State aid.

#### **Scope and Objective**

The objective of our audit was to examine the Town's internal controls over payroll for the period January 1 through December 31, 2013. Our audit addressed the following related question:

- Did Town officials establish adequate controls over payroll to ensure that employee time and leave records were properly maintained and employees received the correct pay and leave accruals?

#### **Audit Results**

The Board needs to improve its policies and procedures over payroll to ensure that Town officials maintain adequate time records, accurately calculate overtime pay and monitor leave accrual use. As a result of the deficiencies we identified, Town officials overpaid 13 employees<sup>1</sup> by more than \$3,500 in overtime pay even though the Town personnel policy states that leave time should not be included in the calculation of overtime. For example, 10 highway employees each received 16 hours of paid holiday leave for Thanksgiving and the following day, which was also included as time worked. These employees received inappropriate overtime pay for 151 work hours that should have been paid at their regular pay rate, resulting in an overpayment totaling \$1,390. Lastly, prior to their retirement, two former highway employees were allowed to use 1,240 sick leave hours valued at more than \$24,000, including 136 hours of paid sick leave to which they were not entitled.

#### **Comments of Town Officials**

The results of our audit and recommendations have been discussed with local 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. Appendix B includes our comment on an issue raised in the Town's response.

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<sup>1</sup> These employees included 12 highway employees and the Court clerk.

# Introduction

## Background

The Town of Johnstown (Town) is located in Fulton County and has a population of approximately 7,100 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Supervisor and four council members. The Board is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations. The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Town provides a range of services to its residents including highway maintenance and snow removal, a Justice Court, water and sewer services and fire protection. The Town's 2013 budget appropriations were approximately \$3.5 million and were funded primarily with real property taxes, sales tax and State aid.

During 2013, the Town employed 31 full-time and part-time employees at a cost of \$753,000. Payroll is the Town's most significant operating cost and represented approximately 22 percent of total 2013 appropriations. The Board is responsible for establishing employee wage rates and payroll and leave accrual policies. The process of recording, maintaining and approving employees' time records and leave requests varies within each department. The Supervisor is responsible for processing payroll and is assisted with this task by a payroll clerk.

## Objective

The objective of our audit was to examine the Town's internal controls over payroll. Our audit addressed the following related question:

- Did Town officials establish adequate controls over payroll to ensure that employee time and leave records were properly maintained and employees received the correct pay and leave accruals?

## Scope and Methodology

We examined the Town's internal controls over the payroll process for the period January 1 through December 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 C of this report.

## Comments of Town 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. Appendix B includes our comment on an issue raised in the Town's response

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 Clerk's office.

## Payroll

Salaries and wages, including overtime, comprise a significant portion of the Town's budget. To properly control and account for these costs, Town officials should ensure that time worked and leave time earned is properly approved, documented, monitored and controlled so employees are only paid amounts to which they are entitled as authorized by the Board. An important component of accounting for employees' time worked is maintaining records that accurately capture the time employees report to work, the time employees' shifts end and when leave time is used. Each employee's time record should be signed by the employee and reviewed and signed by the employee's supervisor. Further, leave time should only be used and overtime should only be paid in accordance with Board policies.

The Board needs to improve its policies and procedures over payroll to ensure that Town officials maintain adequate time records, accurately calculate overtime pay and monitor leave accrual use. As a result of the deficiencies we identified, Town officials overpaid employees by more than \$3,500 in overtime pay. Additionally, prior to their retirement, two former highway employees were allowed to use 1,240 hours of sick leave valued at more than \$24,000, including 136 hours of paid sick leave, to which they were not entitled.

### **Timesheets and Overtime**

The Town's personnel policies and procedures require employees to complete a timesheet for each biweekly pay period. Accordingly, timesheets should show the actual daily hours worked, including beginning and ending times and time used for lunch. The time records should then be verified and signed by the department head. Additionally, when calculating overtime pay, leave time used by employees for vacation, holiday, sick or personal time off should not be included. Furthermore, the Supervisor, as the chief fiscal officer, should review payrolls for accuracy to ensure that leave time used by employees is not included when calculating overtime pay.

Town officials did not enforce the Town's policies or ensure that the payroll records accurately recorded the number of hours that employees worked each day. Additionally, because each department was allowed to use its own form of timesheet, employees did not record their work time in a consistent manner. For example, employees working at the Town Hall completed their own timesheets and generally showed their workdays' start and end times. However, highway employees did not complete their own timesheets. Instead, the Highway Superintendent (Superintendent) prepared a combined



timesheet for all highway employees.<sup>2</sup> Finally, the Supervisor did not review payrolls for accuracy.

We reviewed the Superintendent's combined timesheets and found that he recorded highway employees' daily scheduled work hours as the actual hours they worked, whether an employee worked an entire shift or not. Any overtime hours worked were added to the employees' normal scheduled work hours and accumulated at the end of the week, even if the employee used paid leave during the week. The Superintendent also did not record on his combined timesheet the employees' time in and out during the workday or when an employee used paid leave.<sup>3</sup> Further, the employees did not review or sign the timesheets.

We verified the accuracy of payrolls based on the timesheets submitted by reviewing timesheets and payroll journals for all 18 hourly employees paid during five pay periods<sup>4</sup> in 2013. We found that the work hours reported on the time sheets agreed with the payroll journals. However, leave time used was not reported on the timesheets, which resulted in errors in calculating overtime pay. We then determined how much this practice cost the Town in inaccurate overtime payments by reviewing three pay periods<sup>5</sup> from winter months when the Town's overtime expenditures are typically higher.

The Town personnel policy states that leave time should not be included in the calculation of overtime. However, we found that leave time used by 13 employees<sup>6</sup> was included when calculating their overtime payments, resulting in overpayments totaling more than \$3,500. For example, 10 highway employees each received 16 hours of paid holiday leave for Thanksgiving and the following day, which was also included as time worked. As a result, these employees received overtime pay for 151 work hours that should have been paid at their regular pay rate, resulting in an overpayment of \$1,390.

Because the Superintendent did not record the highway employees' leave time use on the combined timesheets or otherwise communicate the time used to the payroll clerk, she could not accurately calculate

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<sup>2</sup> The Highway Department employs a staff of 10 full-time employees and one part-time employee. During 2013, two employees retired and two new employees were hired.

<sup>3</sup> The Supervisor maintained separate leave accrual records for each employee, where he recorded the amount of leave used. However, these records were not submitted to the payroll clerk.

<sup>4</sup> Refer to Appendix B for information on the sample selection.

<sup>5</sup> Refer to Appendix B for information on the sample selection.

<sup>6</sup> These employees included 12 highway employees (including the two who retired) and the Court clerk.



overtime pay. As a result, the Town paid more for overtime than necessary and did not have an accurate or adequate record of employees' time worked, as required. The lack of such records prevents Town officials from knowing if the employees' actual work and leave hours are used when calculating employee pay or if employees are being correctly paid for the time worked.

## Leave Accruals

The Board should ensure that leave time is verified, approved and monitored. This can be accomplished by establishing and implementing policies and procedures to provide clear guidance to Town officials on how leave time is earned, used and accounted for. Proper accounting for employee leave accruals requires that centralized leave records are periodically reconciled with timesheets and department records. Finally, paid leave should be granted in accordance with formally established Town policies and Board resolutions.

Generally, employees earn paid time-off for a fixed number of days each year for vacation and sick leave.<sup>7</sup> The highway employees and the full-time clerk were eligible to earn leave as authorized by the Board. However, there were no formal procedures for requesting the use of leave time. Further, maintaining leave accrual records was decentralized and no periodic reconciliations were performed. In practice, highway employees informally request to use leave time, which the Superintendent records on individual accrual sheets maintained for each employee. However, highway employees did not review their leave accrual balances for accuracy and these leave records were not submitted to the payroll clerk for reconciliation.

We found that Town officials lacked adequate procedures for verifying, approving and monitoring accrued leave.<sup>8</sup> Additionally, no one periodically reconciled employee leave records with the timesheets. Therefore, we reviewed the 2013 leave accrual records for 11 Town employees (10 highway employees and the Court clerk) to verify that leave was earned and used in accordance with Town policy by comparing the amounts of leave earned and used with the timesheets. We identified the following:

- One highway employee who retired in 2013 was allowed to use 670 hours (83.75 days)<sup>9</sup> of accrued sick leave in the months prior to retirement, including 110 hours of sick leave to which

<sup>7</sup> In accordance with the 2013 Board-approved organizational meeting minutes, sick leave is earned at a rate of one day per month. The Board minutes and the Town's personnel policies and procedures did not indicate when vacation leave was earned. In practice, employees earned their full balance of vacation and sick leave at the beginning of the year.

<sup>8</sup> The Court clerk maintained her own leave accrual records, and one of the Justices reviewed her records for accuracy.

<sup>9</sup> The employee used 68 consecutive 10 hour days of paid leave prior to his retirement date, including 15 (8 hour) days of vacation leave.

he was not entitled. Because the Superintendent recorded this employee as working these hours on the combined timesheets, he was paid \$13,226.

- Another highway employee who retired in 2013 was allowed to use 570 hours (71.25 days)<sup>10</sup> of accrued sick leave in the months prior to retirement, including 26 hours of sick leave to which he was not entitled. Because the Superintendent also recorded this employee as working these hours on the combined timesheets, he was paid \$11,075.

The Superintendent told us that the two employees were not sick and that he allowed them to use up their sick leave prior to retirement because this is the way it had always been done. Additionally, the Superintendent did not maintain running leave balances on the employee accrual sheets. Further, he did not always identify the type of leave taken and credited employees with their full sick leave accruals at the beginning of the year, rather than as stipulated by Town policy. As a result, two highway employees were allowed to use 155 days of sick leave without providing any documentation substantiating the illnesses and they accrued sick leave hours to which they were not entitled.

Town officials did not enforce the Town's leave accrual policy limits and failed to implement adequate procedures for approving and monitoring accrued leave time. As a result, officials could allow employees to use large amounts of sick leave without providing any documentation substantiating an illness. Further, without periodically reconciling leave accrual records with accurate timesheets, there is an increased risk that errors could occur, remain undetected and result in employees using or getting paid for leave time they did not earn.

## Recommendations

1. The Board should enforce its timesheet policy and implement policies and procedures for employees' paid leave which provide clear guidance on how leave is earned, used and accounted for. Such policies should include procedures to track, verify and monitor employees' leave use and periodically reconciling leave records with employee timesheets.
2. The Supervisor should review all payrolls for accuracy ensuring that leave time used by employees is not included when calculating overtime pay.
3. The Superintendent should ensure that each of his employees completes an individual timesheet and that each employee records their time in and out during the workday and the amount of leave time used, as required by Town policy.

<sup>10</sup> The employee used 65 consecutive 10 hour days of paid leave prior to his retirement date, including 15 (8 hour) days of vacation leave.

**APPENDIX A**

**RESPONSE FROM TOWN OFFICIALS**

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

# TOWN OF JOHNSTOWN

2753 ST. HWY. 29  
Johnstown, New York 12095

Nancy MacVean, Supervisor

Phone(518)762-7239

JUNE 17, 2014

OFFICE OF THE STATE COMPTROLLER  
DIVISION OF LOCAL GOVERNMENT & SCHOOL ACCOUNTABILITY  
PSU-CAP SUBMISSION  
110 STATE ST., 12<sup>TH</sup> FLOOR  
ALBANY, NY 12236

DEAR SIR OR MADAME;

THIS IS MY REPOSE TO THE AUDIT YOUR PEOPLE PERFORMED AT THE TOWN OF JOHNSTOWN. IT ALSO SERVES AS MY CAP.

1. You suggest that the Board enforce its timesheet policy.  
DONE- the highway dept. is now making out individual time cards, and accounting for each hour worked. Each card is signed by the employee and the highway superintendent. The payroll officer has been informed that we must keep track of each hour of sick or leave time used. The highway supt. is keeping a list of those hours as well.  
I keep a list in my office that the payroll officer and I go over periodically.
2. As supervisor, I review the payrolls for accuracy and make sure that leave time is not being used when calculating overtime.
3. The highway superintendent makes sure that each of his employees makes out an individual time card listing time worked. They are all signed by the employee and the superintendent. The rest of the employees at the Town Hall have been doing this all along.

It's been a real joy having you guys here. You took files from each office, threw them in boxes and buried them in the records room. We are still looking for a lot of files that were not returned to the correct offices. You also managed to start a war with the highway department and the town board. They are now starting a union at the highway department, don't trust the town board and basically hate us. Thanks so much for coming. I really look forward to your next visit.

Nancy MacVean, Supervisor

See  
Note 1  
Page 12

## **APPENDIX B**

### **OSC COMMENT ON THE TOWN'S RESPONSE**

#### Note 1

Town officials told us when we started our examination that the records room was not organized and they would provide us with any records we needed. As a result, we never entered the records room and all records were provided to us by Town officials which we subsequently returned. Furthermore, a Town official signed a chain of custody form that certified the records provided to us were returned.

## APPENDIX C

### 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. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as the Town's policies and procedures, Board minutes and financial records and reports.

In addition, we obtained information directly from the computerized financial accounting system. This approach provided us with additional information about the Town's financial transactions as recorded in its accounting system. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected payroll timekeeping for further audit testing. To accomplish the objective of the audit and obtain valid audit evidence, we examined records and reports from January 1, 2013 through December 31, 2013.

Our review of payroll timekeeping included the following:

- We reviewed the Town's policies, procedures and records pertaining to payroll timekeeping.
- We interviewed and observed Town officials and employees to learn about procedures used for payroll timekeeping.
- We tested the payroll records of all hourly employees (18) paid during five randomly selected biweekly pay periods during 2013 to ensure that all payments were supported and calculated correctly. We selected our sample by using a random number generator.
- We tested all 13 full-time employees' leave time records for accuracy for the entire scope period.
- We tested all 13 full-time employees' overtime payments made during three randomly select pay periods to ensure that these payrolls were calculated in accordance with Town policy. We selected our sample from the nine winter season pay periods, when overtime payments are typically higher, by using a random number generator.

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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