



# Town of Knox

## Internal Controls Over Payroll

### Report of Examination

Period Covered:

January 1, 2012 — August 31, 2013

2014M-35



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**

May 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 Knox, entitled Internal Controls Over 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 Knox (Town) is located in Albany County and has a population of approximately 2,690. The Town provides various services to its residents including road maintenance, snow removal, fire protection, street lighting and general government services. The Town's budgeted appropriations for fiscal year 2013 totaled approximately \$1.8 million and were funded primarily by real property taxes, sales tax and State aid. The Town is governed by an elected five-member Town Board (Board) comprising a Town Supervisor (Supervisor) and four Board members. The Board is responsible for general oversight of the Town's fiscal activities and safeguarding its resources. The Supervisor serves as both the chief financial officer and the chief executive officer and is assisted in these duties by an account clerk who primarily functions as a bookkeeper to maintain the accounting records.

The Town employs 26 part-time employees in various departments and seven full-time employees in the Highway Department. Payroll is the Town's most significant operating cost, totaling approximately \$500,000 in 2013, which represents 27 percent of the total 2013 budgeted appropriations. The Highway Superintendent (Superintendent) is responsible for submitting the Highway Department's biweekly payroll to the Supervisor. The Supervisor is ultimately responsible for submitting the time records of each Town employee to a vendor that processes the Town's payroll, which includes the calculation of employees' pay, tax remittances and direct deposits.

## Objective

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

- Are internal controls over payroll and leave time appropriately designed and operating effectively to adequately safeguard Town assets?

## Scope and Methodology

We examined internal controls over the Town's payroll for the period of January 1, 2012 through August 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. Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

## Payroll

An effective system of internal controls over payroll processing ensures that employees are paid the wages and salaries and provided the benefits to which they are entitled. Internal controls include written policies and procedures that describe employee responsibilities in preparing the payroll information to submit to a vendor for processing. The internal controls should also address the distribution of payroll checks, payroll review and certifying payrolls, as well as procedures for the Board to authorize salaries, wages and fringe benefits. In addition, the policies should address employees' entitlement to the accrual and use of leave time and payment for unused leave upon separation from employment.

The Town's internal controls over payroll and leave time were not properly designed or operating effectively. The Board did not establish written policies and procedures for authorizing, processing and reporting payroll, including the verification, approval and monitoring of leave time. We also found errors in the leave accrual records for Highway Department employees and inadequate documentation of time worked. As a result, employees were credited with 69 hours of leave accruals, totaling \$1,191, that they were not entitled to, and in some instances employee leave accruals were charged in error. Furthermore, the Board has not established adequate timekeeping procedures for non-highway employees, and there was no supervisory review of time records submitted by employees. These control weaknesses increase the risk of error and the potential abuse of leave time benefits.

Time Records – Properly designed and maintained time records are an important element of good internal controls over payroll. Employees' responsibility for maintaining daily records of their hours worked and/or absences are an important component of these controls. Time records should contain the information necessary to account for an employee's entire workday, including start and end times, leave accruals usage and meal periods. Employees should submit their time records to their supervisors to further attest to the accuracy of those time records; these certified and approved time records serve as supporting documentation for the processing of payrolls.

Town officials have not implemented adequate procedures to accurately record the time worked by employees and to require supervisory review of time records. While the highway employees record their hours worked on timecards, they are not required to sign their timecards, nor does the Superintendent review and sign the

timecards. The other departments<sup>1</sup> use various timekeeping methods which include submitting the hours worked to the Town Supervisor by phone, completing a voucher form with the time worked or sending an email showing the date and total hours worked; however, none of these submissions were reviewed by the Town Supervisor. For example, the Justice does not review the time sheets of the Court clerk and a transfer station employee recorded hours worked on a personal calendar and phoned in the hours to the Supervisor without being required to submit supporting documentation.

We reviewed the timecards for all six highway employees during four months of 2012<sup>2</sup> to verify completeness of the recorded time worked and leave time taken and to determine if the Superintendent had reviewed the timecards. We found that 13 of the 54 timecards we examined were not signed by the employee and there was no indication the Superintendent reviewed and approved them. The Superintendent stated he does not review the employees' timecards, but instead tracks their time worked using a manual form to document total hours worked and reports this information to the Supervisor for payroll processing. Although the hours worked and leave time recorded on the 54 timecards agreed with the form maintained by the Superintendent, we identified variances in the categories of leave accruals charged (see the Leave Accruals finding).

We also reviewed the time records completed from the other Town departments for employees who were paid quarterly. From those departments we randomly selected five<sup>3</sup> employees who were paid a total of \$24,429 and reviewed their time worked and leave time taken to determine if the time worked by the employees was properly recorded and reviewed by the department supervisors. We found that there was no supervisory review of any of the time records submitted, and four of the five employees' time records lacked the actual days and time worked. For example, one employee submitted a summary of time worked on a voucher, rather than providing specific detail of the days and hours worked.

The failure of Town officials to implement proper controls over the recording of time worked and leave time taken, along with the lack of supervisory review and approval of the employees' time records, increases the risk of errors in leave accruals or the abuse of leave time usage. As a result, the Town could be paying employees for time not worked.

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<sup>1</sup> Justice Court, transfer station, Supervisor's office and planning board

<sup>2</sup> We reviewed every third month of 2012 (March, June, September and December).

<sup>3</sup> Using a computerized random sampling tool, we based our selection on the total population of nine hourly employees who are paid quarterly. We tested all four quarters of 2012.

Leave Accruals – Paid leave time is an employee benefit that the Town grants exclusively to Highway Department employees, who earn a fixed number of days each year for vacation, illness and personal use. If any personal time is remaining at the end of the year, the balance can be combined with the employee’s vacation leave for the following year. Therefore, it is important to maintain accurate records of leave accruals and usage and regularly reconcile the leave balances with employees’ timecards. The Superintendent should regularly communicate the available reconciled leave balances to the highway employees.

The Town does not have written policies and procedures related to the verification, approval and monitoring of unused leave time. Highway employees use timecards that do not accurately record the category of leave accruals charged for their time off. Also, highway employees are not required to submit a written leave request form to the Superintendent for approval; instead, leave requests are made and approved verbally.

The Superintendent uses a manually maintained form to record the leave accruals earned and used by the employees and notes leave time accruals and usage on a yearly calendar. Annually, the Superintendent provides highway employees with the form that documents each individual’s leave accrual balances. However, the Superintendent does not maintain a centralized record of employee leave and no one verifies the individual employee records. As a result, errors could occur and employees could be paid for leave that they have either already used or not earned.

We compared the Superintendent’s attendance form to leave accruals recorded on timecards for all six Highway Department employees for the 2012 fiscal year. Four highway employees’ leave accrual records contained a total variance of 113 hours totaling \$1,969<sup>4</sup> between the records maintained by the employees and the leave accrual balances recorded by the Superintendent.

Further, the leave accruals and usage records maintained by the Superintendent had multiple variances, resulting in employees being credited with 69 hours of leave accruals totaling \$1,191 that they were not entitled to. For instance, a highway employee charged 27 hours to a combination of his categories of accruals, totaling \$508, to which he was not entitled according to the year-end accrual balances maintained by the Superintendent. There were also instances of employee accruals being overcharged. For example, four highway

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<sup>4</sup> These variances represent the gross total, as identified in our testing, of time accruals reported through employee timecards and in the Superintendent’s manual attendance form and calendar notations.



employees were erroneously charged 95 hours of leave totaling \$1,781; another employee's leave accruals were charged 48 hours, totaling \$932, when in fact the timecards showed he was working at the time.

Because the Board did not establish policies and procedures over leave accruals, such as a formal leave request policy and reconciliation of timecards to the computer-generated report, highway employees' leave accruals were erroneously credited or charged, and there is an increased risk that additional errors or irregularities could occur and go undetected.

## **Recommendations**

1. Town officials should adopt written policies and procedures for detailed written recording of time worked and leave time used by employees.
2. The Board should ensure that all employees' time records are subjected to supervisory review and approval prior to processing payroll.
3. The Board should ensure that employee leave records are accurately maintained and provide written forms, guidelines and/or procedures to assist the Highway Superintendent in maintaining accurate records for employee leave accruals.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

TOWN OF KNOX

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Michael Hammond, Town Supervisor  
TOWN HALL P.O. BOX 56  
KNOX, NEW YORK 12107  
(518)872-2551 OR 872-1457

April 28, 2014

Office of the State Comptroller  
Division of Local Government & School Accountability  
PSU – CAP Submission  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

Dear Comptroller;

I am requesting that this Audit Response also serve as our Corrective Action Plan (CAP) regarding the report of examination which includes the audit period of January 1, 2012 through to and including August 31, 2013, identified as 2014-35.

The town agrees with the recommendations contained in the audit and have taken the following actions:

1. Development of an employee handbook detailing employee responsibilities and require submission of employee requests of leave forms.
2. As of the Fourth quarter of 2013, all hourly employees that are not required to use a time clock now are required to use a standard time reporting sheet and require an employee signature and the signature of the Supervisor.
3. A new time clock which is directly linked to a computer software program to assist and record punch in and punch out activity has been installed at the highway garage. Employees are required to use this “swipe card technology” to interface with this device. Forms regarding request for leave have been acquired and are available and require signatures from the employee and the Highway Superintendent.

We would like to thank the State Comptroller’s office for their assistance and recommendations.

Sincerely,

Michael Hammond

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Town's internal controls. 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 Town officials, performed limited tests of transactions and reviewed pertinent documents such as Town policies and procedures, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected payroll for further testing for the period of January 1, 2012 through August 31, 2013.

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

- We interviewed Town officials responsible for payroll processing to gain an understanding of the payroll process and the current internal control system.
- We interviewed the Superintendent to gain an understanding of the timekeeping method used by the highway employees as well as the process of tracking accruals for these individuals.
- We reviewed the accruals of the six highway employees to ensure that they were adequately and accurately maintained.
- We interviewed Town employees to gain an understanding of their specific timekeeping method used.

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.

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