



Town of Austerlitz

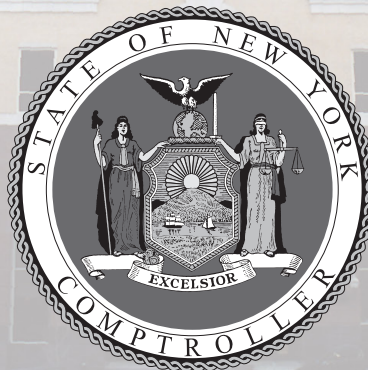
Internal Controls Over Payroll and Fuel Inventory

Report of Examination

Period Covered:

January 1, 2013 — April 25, 2014

2014M-365



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2015

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 Austerlitz, entitled Internal Controls Over Payroll and Fuel Inventory. 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 Austerlitz (Town) is located in Columbia County, has a population of approximately 1,700 residents and covers 48.7 square miles. The Town Board (Board), including the Town Supervisor (Supervisor), is the legislative body responsible for managing Town operations. The Supervisor serves as the Town's chief fiscal officer and is responsible for the receipt, disbursement and custody of Town money. The Town's budgeted appropriations were \$1.64 million for 2013 and \$1.62 million for 2014.

Scope and Objective

The objective of our audit was to examine internal controls over payroll and fuel inventory for the period January 1, 2013 through April 25, 2014. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed to adequately safeguard Town assets?
- Are internal controls over fuel inventory appropriately designed to adequately safeguard Town assets?

Audit Results

The Town's internal controls over payroll need to be improved. Payroll duties were not properly segregated. Department heads are not required to sign time cards showing their approval and pre-approval for overtime was not required. As a result of the internal control deficiencies, there is an increased risk that payroll errors and irregularities could occur.

We also found that the Town's internal controls over vehicle fuel need to be improved. The Town does not take a physical inventory of its fuel and does not reconcile fuel purchases and usage. As a result, during a three-month period 228.6 gallons of the Town's diesel fuel cannot be accounted for, representing 7 percent, or \$750, of the total fuel received during the period.

Comments of Local 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. Town officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Town of Austerlitz (Town) is located in Columbia County, has a population of approximately 1,700 residents and covers 48.7 square miles. The Town has 28 employees with additional seasonal staff to provide its summer parks program. The Town provides various services to its residents, including street maintenance and improvements, snow removal and general government support. Budgeted appropriations were \$1.64 million for 2013 and \$1.62 million for 2014, funded primarily with real property taxes and assessments, sales tax and State aid.

The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for managing Town operations, including establishing internal controls. The Supervisor serves as the Town's chief fiscal officer who has custody of, receives and disburses Town funds. Although the Board is primarily responsible for the effective and proper functioning of the Town, the Supervisor and various department heads share the responsibility for supervising and managing daily operations.

The Town Highway Superintendent (Superintendent) is an independently elected official responsible for maintaining the Town's roads, removing snow and brush and procuring goods and services for the Highway Department. The Superintendent is also responsible for maintaining inventories of consumable products, such as gasoline and diesel fuel, that are purchased for use by the Highway Department.

Objective

The objective of our audit was to examine internal controls over payroll and fuel inventory. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed to adequately safeguard Town assets?
- Are internal controls over fuel inventory appropriately designed to adequately safeguard Town assets?

Scope and Methodology

We examined the internal controls over payroll and fuel inventory for the period January 1, 2013 through April 25, 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 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.

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 helps ensure that employees are paid the wages and salaries and provided the benefits to which they are entitled. To help reduce the risk of fraud and misconduct, it is imperative that payroll functions are segregated so that no one employee performs all aspects of a payroll transaction. If it is not feasible to adequately segregate duties over the entire payroll process, the Board must implement compensating controls, such as additional procedures or reviews, to limit the risk. New York State Town Law (Town Law) requires that Town officials having direct supervision over employees certify or, if required by Board resolution, verify that services indicated on the payrolls were actually performed.

The Town's internal controls over payroll need to be improved. Payroll processing duties were not properly segregated. Department heads were not required to sign time cards showing their approval, and pre-approval for overtime was not required.

Payroll Processing

An effective system of internal controls over payroll processing helps ensure that employees are paid the wages and salaries and provided the benefits to which they are entitled. To help reduce the risk of fraud and misconduct, it is imperative that payroll functions are segregated so that no one employee performs all aspects of a payroll transaction. If it is not feasible to adequately segregate duties over the entire payroll process, the Board must implement compensating controls, such as additional procedures or reviews, to limit the risk. Town Law requires that Town officials having direct supervision over employees certify or, if required by Board resolution, verify that services indicated on the payrolls were actually performed.

Payroll processing duties were not properly segregated. The Town's accountant was responsible for processing payrolls, creating checks, making adjustments to the Town's payroll system and reconciling the payroll bank account. While the Supervisor signed the payroll checks, he did not adequately review the payroll or the accountant's banking activity, including the reconciliations.

We reviewed accrual records, pay rates, overtime approvals and payroll certifications for a three-month period, October through December 2013. One employee was paid at a base rate of \$15.00 per hour instead of the Board-approved rate of \$13.50 per hour. This resulted in an overpayment totaling \$678 during the three-month period. In addition, there was no documentation of pre-approval for \$8,694 in overtime payments during this period. Lastly, out of

seven payrolls paid during the three-month period totaling \$120,331, four payrolls totaling \$68,390 were not certified by the Supervisor or Highway Superintendent, as required by Town Law. As a result, there is an increased risk that payroll-related disbursements are for incorrect amounts, are not properly authorized or are not supported by sufficient documentation.

These issues occurred because the Supervisor did not properly review the accountant's work and did not certify the payroll. Without the proper segregation of payroll duties or sufficient oversight, there is an increased risk that errors or irregularities might occur and go undetected and uncorrected.

Time and Attendance Records

Properly designed and maintained time and attendance records are an important component of good internal controls over payroll. Records should contain the information necessary to account for an employee's entire workday, including starting and ending times, leave charges and meal periods. Records must be controlled and monitored because they are used to determine employees' regular and overtime pay and accumulated leave balances.

Internal controls over time and attendance records need to be improved. We reviewed time records for eight of 28 employees for the period October through December 2013 and found that only the Highway Department used a timekeeping system. Other Town departments told the Town's accountant how many hours employees worked and the accountant input the information into the payroll system. In addition, employees were not required to sign their time records attesting to the accuracy of those records and there was no evidence of supervisory review.

Without an adequate time and attendance system, the Town cannot be assured that employees are being paid for actual time worked.

Recommendations

The Board should:

1. Segregate the duties over payroll processing or implement compensating controls to ensure that the payroll is accurate.

The Supervisor and Superintendent should:

2. Review payroll records for errors as part of the certification of payroll.
3. Review employees' time cards each pay period for accuracy and completeness and document their review and approval.

Fuel Inventory

Town officials are responsible for establishing procedures to provide reasonable assurance that vehicle fuel is accounted for and used only for Town purposes. The Superintendent is responsible for ensuring that fuel supplies are adequately safeguarded, accounted for and protected against the risk of loss, waste and misuse. To accomplish this, fuel supply tanks should be measured,¹ prior to and after fuel delivery, to help ensure that the Town pays for the correct number of gallons of fuel received. Inventory records should be maintained to account for the amount of fuel purchased and used and the balance of fuel remaining in the tanks. Inventory records should be periodically reconciled to physical inventories, and material discrepancies should be investigated and resolved.

The Board and Superintendent did not implement proper controls over fuel inventory. The Superintendent did not measure the fuel tank prior to and after fuel delivery. In addition, although the Highway Department's unwritten procedures required fuel users to include complete information on the fuel log, such as the amounts of diesel fuel used, the vehicle receiving the fuel and by whom the fuel was pumped, these procedures were not implemented. Furthermore, the Superintendent does not periodically conduct a reconciliation of fuel purchases and usage to fuel remaining on hand to account for usage.

The Highway Department purchased 3,277.7 gallons, totaling \$10,771, from September through November 2013. However, only 3,049.1 gallons were recorded in the Town's fuel log. Therefore, 228.6 gallons (7 percent), valued approximately at \$750, were unaccounted for.

The Superintendent said that employees do not always write down when they take out fuel. The Superintendent believes that a key pump system for the diesel fuel tank would enable them to keep track of fuel used, the vehicles using the fuel and the persons pumping the fuel. Without proper controls over fuel inventory, Town officials cannot be sure that fuel purchased by the Town is properly accounted for and used only for proper Town purposes.

Recommendation

4. The Board and Superintendent should document written procedures to ensure that the fuel supply is periodically measured and adequate fuel inventory records are maintained. Fuel log records should be periodically reconciled to physical

¹ For example, via the use of a measuring stick or tank gauge

inventories of fuel on hand. Any differences should be investigated and resolved.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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518-755-0996 (C)
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Town of Austerlitz

February 23, 2015

State Of NY Office of the State Comptroller
Attn: [REDACTED]
Newburgh, Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Re: Response to Town Audit

Dear [REDACTED],

On behalf of the Town of Austerlitz I would like to take this opportunity to respond to your findings on the audit that was just completed. Since taking over as Town Supervisor in 2014 the Town Board and I have made the necessary corrections and improvements that address your concerns. The Town of Austerlitz has hired a new accounting firm, as well as, a new payroll company to insure that the proper checks and balances are in place. We have hired an office person that checks all payroll records after the Highway Superintendent has reviewed all time cards for accuracy. Once these cards are checked and signed they are called into a payroll company that then sends all records and checks to me for review. All records are audited, signed and given to the employees. I feel very confident that the process in place now has corrected any issues that may have existed.

In reference to fuel consumption and checks and balances this has also been addressed and discussed at the exit interview. The fuel that was not accounted for was from our summer camp program. This has been corrected by hiring an outside bussing company to handle all of our bussing needs. They provide the bus, insurance and the fuel. This will insure that no one other than our town employees are handling our fuel tank. Again I am confident that this situation has been corrected and any future fuel consumption will be accounted for. We will have future discussions as to a new electronic system for keeping track of fuel use.

I want to thank you for your thorough audit. The way that this audit was conducted was informative and offered the Town guidance. All questions were answered professionally and timely.

Sincerely,

Robert Lagonia
Supervisor



Serving Since 2014

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if Town officials implemented effective internal controls over payroll and fuel inventory to adequately safeguard Town assets. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed internal controls over payroll processing to determine if they were properly functioning to ensure employees received proper payments based on approved salary schedules, proper benefit amounts were withheld, payroll amounts were properly supported with time and attendance records, accruals were properly earned and accrual balances were adjusted based on time off.
- We reviewed the Town's internal controls over fuel supplies at the Highway Department and determined if the amounts purchased, used and on hand appeared accurate and reasonable. We compiled the price and quantity of a three-month sample of fuel used per the Town's fuel log to the price and quantity of fuel purchased and tested for 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 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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