



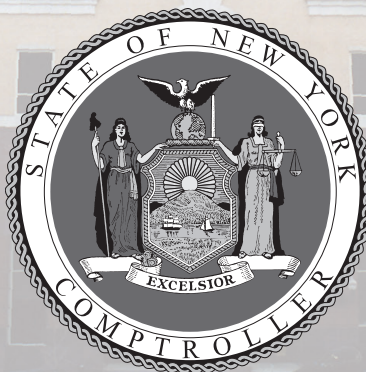
Town of Orangetown Overtime

Report of Examination

Period Covered:

January 1, 2015 — July 19, 2016

2017M-48



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

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 Orangetown entitled Overtime. 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 Town of Orangetown is located in Rockland County and has a population of approximately 50,500. The Town is governed by an elected five-member Town Board (Board), which is composed of four Board members and the Town Supervisor (Supervisor). The Board is the legislative body responsible for managing Town operations. The Supervisor serves as the Town's chief executive officer. The Director of Finance (Director) is the Town's chief fiscal officer, responsible for budgeting. The Town also employs a supervisor of fiscal services whose duties include managing day-to-day financial operations, including payroll, under the Director's supervision.

The Town provides a range of services to its residents, including police protection, highway maintenance and sewer service. The Town's 2017 budgeted appropriations were approximately \$73 million, which included \$2.3 million for overtime pay. The Town's workforce consists of approximately 400 employees (full- and part-time) and the largest number of employees work in the Police, Highway and Sewer departments.

Objective

The objective of our audit was to examine overtime pay for the period January 1, 2015 through July 19, 2016. Our audit addressed the following related question:

- Have Town officials ensured overtime payments are accurately budgeted and overtime worked and paid is in accordance with collective bargaining agreements (CBAs)?

Scope and Methodology

We examine overtime payments for the period January 1, 2015 through July 19, 2016. We extended our scope period back to January 1, 2013 and forward to September 30, 2016 for overtime trend analysis.

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 D of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

**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 B, have been considered in preparing this report. Except as specified in Appendix B, Town officials generally agreed with our recommendations and 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 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.

Overtime

Adequate internal controls include adopting reasonable overtime budgets that allow Town officials to monitor overtime spending throughout the year. Town officials are responsible for establishing controls to ensure that accurate overtime and other payroll records are kept. Good controls include having and enforcing written policies and procedures to provide reasonable assurance that time worked is properly documented and overtime and compensatory time are earned and used in accordance with the CBAs.

Town officials need to improve overtime payroll procedures to ensure that overtime payments are accurately budgeted for and overtime worked and paid is in accordance with CBAs. The Board and Town officials did not develop overtime budgets based on known needs and historical trends. Each year, officials adopted overtime budgets with appropriations that were significantly less than the actual overtime expenditures of preceding years for the Police, Highway and Sewer departments. Officials did not adequately monitor adopted budgets and allowed them to be over-expended each year.

We also found that although the Police Department's CBA allows officers to accumulate up to 80 hours of overtime during the year, Town officials did not adhere to those limits. Moreover, overtime and other payroll information was not accurately and consistently recorded, causing significant discrepancies in the overtime records. Our review of work schedules, time sheets and payroll summaries for two payroll periods disclosed discrepancies between these three records in 24 of 50 instances tested.

While these discrepancies were subsequently resolved, without adequate overtime budgets that are monitored and controlled, there is a risk that the Town may experience a decline in financial condition and Town residents may pay more for services than budgeted. In addition, when employees accumulate overtime hours in excess of amounts allowed, the Town is at risk of incurring a higher liability than authorized. Finally, when records are inconsistent, there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Overtime Budgeting

The Board is responsible for developing adequate budgets, including overtime budgets, by estimating expenditures based on known needs and historical trends. The Board is also responsible for monitoring and controlling its adopted budgets, which includes reviewing periodic budget to actual reports and making timely budget transfers

to ensure that overtime budget lines have available funds before costs are incurred. To help the Board with this responsibility, department heads should also monitor their overtime budgets and request budget transfers, as appropriate, before payroll disbursements are made.

The Board adopted overtime budgets each year with appropriations that were not based on historical trends. Although actual expenditures exceeded overtime budgets for several years, the Board continued to budget approximately the same amounts for overtime pay each year.

For example, the Board budgeted \$1 million for Police Department overtime pay in 2013 and \$1.1 million in 2014 and 2015. However, actual overtime expenditures totaled \$1.3 million in 2013, \$1.5 million in 2014 and \$1.7 million in 2015. The Board budgeted \$150,000 for Sewer Department overtime pay in 2014 and \$159,000 in 2015 and 2016. Actual overtime expenditures totaled approximately \$193,300 in 2014 and \$279,300 in 2015. Similarly, for the Highway Department, the Board budgeted approximately \$691,400 for overtime pay in 2013, \$600,800 in 2014 and \$656,000 in 2015 and actual overtime expenditures totaled \$798,600 in 2014 and \$783,400 in 2015. In addition, the Board, Town officials and department heads did not adequately monitor or control the budget throughout the year and allowed overtime budgets to be overexpended each year.

Department heads did not request budget transfers because the Finance Department did not require them before authorizing the payments that led to the overtime budget being overexpended. As of September 30, 2016, the Police Department had approximately \$10,000 remaining¹ of its \$1.2 million overtime budget. Therefore, it is likely that this department will exceed its budget for 2016. In addition as of September 30, 2016, the Sewer Department exceeded its overtime budget by \$63,700, while the Highway Department still had \$380,600 remaining of its \$641,500 overtime budget.

Town officials told us that the excess overtime in the Police and Sewer departments was due to staffing issues. However, when overtime budgets are not developed based on historical trends and the adopted budgets are not monitored and controlled, the Town could miss out on cost-saving opportunities, residents pay more than they expected to for the services provided and the Town may experience a decline in its financial condition.

¹ This amount is before accounting for movie detail reimbursements, which are received at year-end.

Overtime Hours Accumulated

According to the Board-approved CBAs, work hours in excess of 40 hours in an employee's normal work schedule shall be compensated at the rate of one and a half (1½) times the regular hours. Employees may elect to receive compensatory time in lieu of additional pay for time worked beyond their normally scheduled work hours. In addition, the Police Department CBA limits compensatory time to 80 overtime hours, or 120 compensatory hours, per calendar year that may be accumulated.

Although the Police Department's CBA limits the amount of hours that its employees can accumulate, department employees were allowed to accumulate an unlimited number of overtime hours for up to an entire year before deciding whether to receive payments for the overtime or receive compensatory time instead.

We reviewed 15 Police Department employees' time sheets, scheduling records and payroll summary sheets for two payroll periods. We found that two employees accumulated more hours than authorized by the CBA. In October 2015, one employee was paid \$11,358 for 113 overtime hours and in December 2015, another employee was paid \$34,549 for 365.5 overtime hours.

Police Department employees were able to accumulate hours in excess of amounts authorized because Finance Department officials were unaware of this CBA limitation. When employees accumulate overtime hours in excess of amounts allowed, the Town is at risk of incurring a higher liability than planned. In addition, these overtime payouts can cause the Town to overexpend its budget if the Town does not have a policy and procedures in place to monitor the overtime and compensatory time according to the CBA.

Payroll Records

The Board and Town officials are responsible for designing and implementing internal controls over payroll records, including the manner in which complete and accurate time worked is recorded and information used to support an employee's time sheet is retained. Complete and accurate payroll records are necessary for effectively managing Town operations.

The Town payroll function is for the most part decentralized. Individual departments are responsible for maintaining time and attendance records, approving time sheets and preparing biweekly payroll summaries. Every payroll period, each department forwards a biweekly payroll summary to the Finance Department where payroll is processed. Departments are responsible for ensuring that the payroll information submitted to the Finance Department is accurate and represents the appropriate employee pay.

Our review of payroll records disclosed that these records were incomplete and could not be relied on. We compared the three main sources of payroll information (i.e., work schedules, time sheets and payroll summaries) for two payroll periods for 25 employees (including 15 Police Department employees, five Highway Department employees and five Sewer Department employees) and found discrepancies between these three records for 24 of 50 records reviewed.

Although these employees were accurately paid, most of the discrepancies identified occurred due to timing differences that were not explained on the time sheets or on the payroll summaries. We were able to resolve them with the Police and Sewer departments' clerks, who were able to go back to prior time sheets and show us how the discrepancies occurred.

However, for the payroll period ending December 31, 2015 for Police Department employees:

- One employee's time sheet showed 40 vacation hours, while the payroll summary reported 40 regular hours. It was unclear based on the records whether the employee actually worked those hours or was paid for vacation time.
- Another employee's time sheet showed 32 hours of personal leave, while the payroll summary sheet reported the time as regular hours worked.
- A third employee's payroll summary sheet showed 32 hours of holiday pay from a prior payroll period. However, no other documentation was available to show whether these hours were actually from another payroll period.

For the payroll period ending October 23, 2015 for Sewer Department employees:

- One employee's time sheet and scheduling record showed 56 hours worked, while the payroll summary showed 72 hours worked.
- Another employee's time sheet and scheduling record included 16 hours of overtime, while the payroll summary showed 24 hours of overtime.

These discrepancies occurred partially because the Town's policies or procedures over payroll were not written. In addition, employees were paid on the last day of the payroll period and individual departments

were required to submit the biweekly payroll summary to the Finance Department about four to five days before the end of the payroll period, which generally ended on a Friday. Because of this practice, the Police and Sewer departments shifted their payroll periods to accommodate the early submission. For example, for the payroll period covering December 26, 2015 through January 8, 2016, these departments submitted time for work performed from December 18 through December 31, 2015.

Shifting time worked in this manner had no significant effect on the amounts paid to these employees. However, in 2015 the last biweekly payroll summary report, annual payroll summary, and the federal W-2 tax forms, were inaccurate because payroll payments for 8 days at the end of that year (December 18 through 25) were not included.

Because Town records are inconsistent, there is a risk of errors occurring in the amounts paid to employees for overtime. In addition, if payroll questions arise in the future, Town officials may not be able to determine if an employee actually worked on a specific day because one record may show he worked and another show he was on leave.

Recommendations

The Board should:

1. Adopt realistic overtime budgets based on historical or other known trends.

The Board and Town officials should:

2. Monitor or control the overtime budgets throughout the year and make timely budget transfers, when necessary.
3. Monitor the amount of overtime accumulated by Police Department employees to ensure it does not exceed the limits authorized by the CBA.
4. Establish and implement written payroll policies and procedures to ensure that accurate and complete payroll records are maintained to support all payroll payments.
5. Ensure that the payroll errors identified in this report are corrected.

Department heads should:

6. Monitor their respective overtime budgets and request budget transfers, as appropriate, before payroll disbursements are made.

APPENDIX A

OVERTIME BUDGET VARIANCES

Table 1: Police Department						
	Original Budget	Adjusted Budget	Actual Expenditures	Movie Detail Revenue	Over (Under) Budget	Percentage Over (Under) Budget
2013	\$1,000,000	\$1,000,000	\$1,269,887	\$156,162	\$113,725	11.4 %
2014	\$1,100,000	\$1,100,000	\$1,474,896	\$259,734	\$115,162	10.5 %
2015	\$1,100,000	\$1,100,000	\$1,743,231	\$224,795	\$418,436	38.0 %
1/1-9/30/16	\$1,175,000	\$1,175,000	\$1,164,992	Unknown ^a	(\$10,008)	(0.9 %)

^a Movie detail reimbursements are received at year-end. As of September 30, 2016, this amount was unknown.

Table 2: Sewer Department					
	Original Budget	Adjusted Budget	Actual Expenditures	Over (Under) Budget	Percentage Over (Under) Budget
2013	\$187,000	\$187,000	\$132,079	(\$54,921)	(29.4 %)
2014	\$150,000	\$150,000	\$193,290	43,290	28.9 %
2015	\$159,000	\$159,000	\$279,339	120,339	75.7 %
1/1-9/30/16	\$159,500	\$159,500	\$223,199	63,699	39.9 %

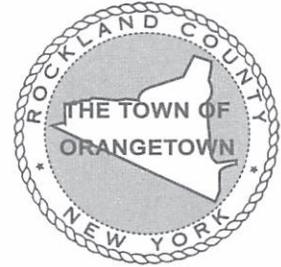
Table 3: Highway Department					
	Original Budget	Adjusted Budget	Actual Expenditures	Over (Under) Budget	Percentage Over (Under) Budget
2013	\$691,398	\$691,398	\$639,892	(\$51,506)	(7.5 %)
2014	\$600,827	\$600,827	\$798,558	\$197,731	32.9 %
2015	\$655,962	\$655,962	\$783,409	\$127,447	19.4 %
1/1-9/30/16	\$641,500	\$641,500	\$260,931	(380,569)	(59.3 %)

APPENDIX B
RESPONSE FROM LOCAL OFFICIALS

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

Town of Orangetown

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Andrew Y. Stewart, Ph.D.
Supervisor

June 8, 2017

Town of Orangetown response to Draft Comptroller's report on Overtime

Rationale for overtime budgeting:

In our budgeting process, we challenge Department heads to reduce overtime. By establishing challenging budgets for overtime, we elicit a higher focus from the department heads on overtime. In our view, by simply budgeting a higher amount of overtime, it may be more realistic; however, it does not inspire the same focus on preventing overtime. In fact, similar to the military, if a budget is set high, departments tend to use all of it, to justify the need for it in the following year. We are attempting to break that mindset.

The expectation was to give every attempt to reduce the amount of overtime. During departmental budget meetings, the need for overtime was addressed, and management expectation was to reduce the need for overtime and accordingly a reduction in the amount budgeted. As with all budgets, there are expectations and projections that are not always met. Workman's Compensation cases were at very high levels for both the Highway and Sewer departments during the review period. When employees are sick or out of work for worker's comp, this causes overtime to increase to replace the work done by the lost workers. In addition, weather conditions have an impact on the overtime incurred and is out of our control. Finally, in the Police department, due to several retirements, police headcount was as much as 6 police officers below our budgeted amount of 83 officers. Due to mandatory staffing requirements, this automatically increases overtime to replace the missing officers. Importantly, this is largely and potentially completely offset by the fact that we are not paying the 6 missing officers in this time frame. Therefore permanent salary and healthcare savings will likely completely offset the higher overtime levels.

Payroll Records:

Part of each Department's employee payroll record maintenance includes a monthly reconciliation of the employee's accrual balances to a summary report prepared and distributed to each department by the Finance Department. Adjustments to reconcile reports are made through the payroll.

The period covered included a first time use of a new hand scanner and software for reporting time worked. With this, there were many discrepancies due to implementing the shift work rules into the time clock. This is an ongoing process that the Town is still fine tuning with the software company.

See
Note 1
Page 14

The reporting of time to Finance on a biweekly timesheet does not include time off for the second week paid, as it is submitted on the Monday of that week. However, it does include hours worked through the pay date. The adjustment in the next pay period is for time off only or for overtime that might have been worked. Therefore, it is possible that Finance records do not fully reflect the accruals or overtime at the time of the paycheck, but these variances are corrected in the next pay period.

See
Note 2
Page 14

Budget Adjustments: While the Town has monitored each department’s budget throughout the year and notified specific department heads when they are trending above budget, the formal budget adjustments have historically been done at the end of the year in accordance with our auditors’ recommendations. Going forward, we will implement a quarterly review of the budget and require budget adjustments at these times to increase the accountability of the department heads and also to ensure that the Town Board will have a greater understanding of the financing trends of each department.

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APPENDIX C

OSC COMMENTS ON THE OFFICIALS' RESPONSE

Note 1

Our audit of payroll records did not include hand scanner records. The discrepancies indicated in our report were unrelated to the scanners or the scanner software.

Note 2

Finance Department payroll records are inaccurate because employees are paid in advance of time worked. Variances are not corrected in the individual payroll records (kept by each department) the next pay period and the Finance department does not reconcile payroll accruals with the individual payroll records until year-end.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town and Department officials and employees to gain an understanding of department payroll procedures.
- We judgmentally selected two of 45 pay periods in our audit period based on the amount of overtime paid in the pay period. We reviewed the time sheets and scheduling records and compared them to payroll summary reports for 25 judgmentally selected employees (15 Police Department, five Highway Department and five Sewer Department employees) who had the highest amounts of overtime pay from the 182 employees (79 Police, 66 Highway and 37 Sewer) for those pay periods to determine whether there were any variances or discrepancies in regular hours, overtime hours and paid time off. We also determined whether the hours claimed on time sheets were accurate, salaries and wages were accurately paid and whether any officers worked overtime and were also scheduled to work regular hours.
- We reviewed collective bargaining agreements for the Police, Highway and Sewer departments to gain an understanding of overtime and compensatory time provisions.
- We reviewed the Town budgets and budget status reports for the overtime budgets and police movie detail reimbursement amounts for years 2013 through 2016.
- We reviewed payroll details for eight out of 16 employees who received balloon payments to determine the reason for the payments.

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.

APPENDIX E

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