

City of Sherrill

Payroll and Community Activity Center Cash Receipts

DECEMBER 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

City of Sherrill

Audit Objectives

Determine whether employee salaries and wages were accurately paid.

Determine whether cash receipts from the Community Activity Center of the City of Sherrill (City) were properly accounted for.

Key Findings

- City officials accurately paid employees' salaries and wages. However, officials need to improve controls over payroll preparation and processing.
- There is no independent certification of payroll prior to the distribution of payroll checks.
- The City has delegated certain of the Comptroller's disbursement duties and custody of City funds to an outside payroll processing company without legal authority.
- City officials need to improve controls over Community Activity Center cash receipts.

Key Recommendations

- Provide adequate oversight of payrolls.
- Adopt written policies and procedures for cash collections at the Community Activity Center including recording, depositing and remitting cash receipts.

City officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The City is located in Oneida County and is governed by its charter and other State laws. The elected five-member City Commission (Commission) is the City's governing body. The Commissioners select a Chair, who serves as the Mayor under the charter. The Commissioners also appoint a City Manager, who serves as the City's Chief Administrative Officer. The City Comptroller (Comptroller) is the City's chief fiscal officer.

The City operates a Community Activity Center that provides a variety of programs to residents and non-residents. The Facilities Director (Director) oversees the day-to-day operations of the Community Activity Center.

Quick Facts

Population	3,071
Employees	50
2016 Payroll Expenditures	\$1,545,792
2016 Community Activity Center Cash Receipts	\$196,000

Audit Period

January 1, 2016 – March 31, 2017

Payroll

How Should the City Ensure That Salaries and Wages Are Accurately Paid?

Payroll makes up a significant portion of the City's operating cost; therefore, City officials should establish procedures to ensure that employees are paid properly authorized salaries and wages. A well-designed payroll processing system requires policies and procedures that provide guidance and oversight for employees who process payroll. The Commission or the City Manager, per the City Charter, should establish and approve¹ all salary and hourly wages by resolution (for example, by approving salary schedules with the adopted budget). The payroll authorization function should be segregated from payroll preparation and processing. Any changes in employment status, salary and wage rates should be properly authorized, approved and documented to support the changes. Before checks are distributed, payroll registers or similar records should be reviewed and independently certified.

The City may engage a private contractor to perform certain functions in connection with payroll preparation. However, absent legal authority, the functions of custody and disbursement of City funds granted by the City Charter to the Comptroller may not be delegated to a private contractor. This includes providing private contractors with access to withdraw funds from City bank accounts. Even when it is permissible to have a private contractor perform these functions there should be a written agreement that clearly states the City's needs and expectations, specifies the level of service to be provided and the agreed upon costs.

The City Accurately Paid Salaries and Wages

City employee salaries are included in a salary schedule in the adopted budget.² We reviewed all gross pay calculations totaling approximately \$555,300 for 17 employees during our audit period and determined that City officials accurately paid employees' salaries and wages in accordance with authorized salaries or hourly rates.

The City Needs to Improve Controls over Payroll Preparation and Processing

The City contracts with a vendor for payroll processing services. The City's payroll clerk enters certain information for new employees into the payroll vendor's system and enters salaries and wage rates for all employees from the

¹ The City Charter provides that the Commission set by resolution the salary for compensation of the heads of departments, and the city clerk; while the City Manager determine the salaries or compensation of all employees, which shall be reported to the Commission.

² Including select members of the police department who are part of a collective bargaining agreement (CBA)

adopted budgets. On an ongoing basis, the payroll clerk enters any changes to salaries and wage rates for existing employees, as authorized. The payroll clerk receives time records that are gathered, reviewed and approved by the respective department heads and enters the hours worked for hourly employees into the system. She also inputs any changes to salaried employees pay and updates leave records.

After the payroll clerk has entered the weekly payroll, she generates a report to verify the information entered matches her totals and electronically submits the information to the vendor for processing. The vendor transfers the required funds from the City's bank account to its own account, prepares and signs the payroll checks,³ processes direct deposits and remits the federal and State payroll tax withholdings. The vendor provides the payroll checks, payroll reports and other correspondence to the payroll clerk. The payroll clerk provides a summary of the weekly payroll to the Comptroller who uses the information to record a payroll entry in the City's accounting records and the payroll clerk gives the checks to department heads for distribution to employees.

There is no process for the Comptroller or anyone else independent of the payroll process to review, approve or certify final payrolls prior to the distribution of payroll checks. Furthermore, although using a vendor to process the City's weekly payroll is permissible, there is no authority for the City to delegate the Comptroller's disbursement functions⁴ to the vendor or to provide the vendor with access to withdraw funds from a City bank account. Also, City officials were unable to provide a written agreement between the City and vendor that outlined the City's needs and expectations and specified the level of service to be provided by the vendor, or the agreed upon cost.

We compared weekly payroll reports for four months⁵ totaling \$612,432 to the funds transferred out of the City's bank account by the vendor. This money consisted of the amounts for payroll checks, direct deposits and federal and State payroll tax withholdings. The amounts deducted by the vendor from the City's checking account were supported by the weekly payroll records. While our testing did not disclose any exceptions, without someone independent of the payroll process reviewing the payroll reports prior to distributing payroll, there is an increased risk that errors or irregularities could occur without detection. Furthermore, the City's current arrangement that allows the vendor to directly withdraw funds from the City's bank account could place City funds at unnecessary risk.

3 Payroll checks are drawn on the vendor's bank account. The City does not receive copies of the canceled checks from the vendor.

4 General City Law, Section 3-d and General Municipal Law, Section 93-d provide authority for a city to contract with a bank or trust company for the deposit of the periodic payroll with the bank or trust company and disbursement of the payroll by the bank or trust company; however, the private firm in this instance is not a bank or trust company.

5 April, May and December 2016 and March 2017

What Do We Recommend?

The Comptroller should:

1. Provide adequate oversight of payrolls, including providing an independent review, approval and certification of payrolls prior to the distribution of payroll checks.

The Commission and the City Manager should:

2. Ensure that the Comptroller's custodial and disbursing functions are not delegated to a vendor and that the City does not allow the vendor to withdraw funds from the City's bank account.
3. Review and formalize the terms and conditions of the City's agreement with the vendor.

Community Activity Center Cash Receipts

The Community Activity Center includes a gymnasium, youth center, bowling lanes, pool tables, a concession area and space for meetings, classes and events. Revenue-generating services include adult and youth bowling leagues, billiards and space and room rental for meetings, banquets, bowling, birthday parties and private events.

What is the Proper Way to Account for Community Activity Center Cash Receipts?

The Commission and City officials are responsible for establishing internal controls so that cash is safeguarded, accounted for and properly recorded. Such controls include adopting and effectively communicating written policies and procedures over cash collections that delineate employee responsibilities, provide for individual accountability and ensure that cash receipts are properly secured, accounted for, recorded, deposited and remitted. When cash registers are used, all cashiers should start with a set amount of start-up cash and ideally have their own assigned cash drawers. Cash register tapes should be compared to cash on hand (less the start-up cash) at the end of the cashier's shift or when another cashier takes over and cash should be counted prior to being put into a deposit bag and compared to the amount reported. When funds are remitted to the Comptroller's office for deposit, funds should be counted and press numbered duplicate receipts should be issued to document the transfer of funds. Also, there should be an independent review to ensure all money collected is deposited. Any differences should be documented and investigated as needed.

Officials Need to Improve Controls Over Community Activity Center Cash Receipts

City officials have not formalized policies and procedures over the Community Activity Center's cash collections. The Director oversees the cash receipts process and cashiers collect funds and record sales using two cash registers. The Community Activity Center also accepts payments by credit card. One register is used for concession revenues and a second register is used for miscellaneous revenues from Community Activity Center activities. The cashiers change shifts throughout the day; however, each cashier does not have an individual cash drawer and cash-outs or cash accountabilities are not performed at the end of each shift or when other cashiers take over. The cashier on duty at the end of the evening generates a daily receipt tape and places the receipt and cash in the drawer into a bank deposit bag that is stored overnight in a locked filing cabinet. However, the cashier does not count the cash prior to putting it into the deposit bag or compare it to the amount reported on the daily receipt tape.

The following day the Director counts and compares the totals to the register receipt tapes for the day and follows up on any discrepancies with the cashier

on duty the previous night. The Director told us that discrepancies are typically caused by over-rings and are usually documented as such by the cashier(s) who will often call him at the time they occur to notify him in advance. However, because multiple individuals have access to the cash before the Director's count is performed, there is no individual accountability for funds collected.

After counting the cash, the Director brings the funds, daily receipt tapes and credit card receipts to the Comptroller's Office twice a week. The Comptroller's Office clerk who receives funds does not count the funds when remitted by the Director or issue press numbered duplicate receipts to the Director as evidence that the funds have changed hands. The Director told us that the Comptroller's Office clerk will contact him if a discrepancy is discovered while counting the funds and comparing them to the receipts. The Comptroller's Office clerk combines the Community Activity Center's cash receipts with other general fund cash receipts (for example, property taxes collected or garbage coupon revenue), records the funds in the financial system and prepares the bank deposit slip. The deposit is made by the clerk or another Comptroller's Office employee. However, there is no process for the Comptroller, or anyone independent of the cash receipts process to review the work of the clerk to ensure all the moneys received are deposited.

We tested two months⁶ of cash receipts totaling \$46,627. We traced the amounts reported on the register receipt tapes to the supporting records for each deposit, bank deposit slips and bank statements to determine whether they were properly deposited. We also traced deposits to the general ledger to determine whether they were recorded correctly in the City's accounting records. Although our testing did not reveal any significant discrepancies, City officials could strengthen controls by ensuring individual accountability is maintained when cash is collected and changes possession.

What Do We Recommend?

The Commission should:

4. Formalize written policies and procedures related to the Community Activity Center cash collections including procedures for recording, depositing and remitting cash receipts. Policies and procedures should be effectively communicated to employees.

The Director should:

5. Ensure that each cashier has an individual cash drawer and that cash-outs or cash accountabilities are performed and documented at the end

⁶ February 2016 and March 2017

of their shifts or when other cashiers take over. Discrepancies should be investigated, if necessary.

The Comptroller should:

6. Ensure that the Clerk at the Comptroller's Office counts the funds at the time they are remitted by the Director and issues press numbered duplicate receipts to document the transfer of funds.
7. Ensure there is an independent review of the cash receipts process to ensure all the moneys received are deposited.

Appendix A: Response From City Officials

Brandon M. Lovett, *City Manager*
Michael D. Holmes, *Comptroller/City Clerk*
Christopher Bailey, *Supt. Public Works*
Robert Drake, *Police Chief*
Sara Getman, *Recreation Supervisor*
Kevin Mumford, *Supt. Waste Water Treatment*
Robert Mumford, *Supt. Power & Light*



COMMISSIONERS
William Vineall, *Mayor*
Jeffrey Gilbert, *Deputy Mayor*
Thomas Dixon
Patrick Hubbard
Jason Merrill

CITY OF SHERRILL

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December 18, 2017

Office of the State Comptroller
Attn: Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Re: City of Sherrill Audit

Dear Ms. Wilcox,

The City of Sherrill has received the New York State Comptroller's draft audit report for the City of Sherrill and its payroll procedures and Community Activity Center (CAC) cash receipts for the period January 1, 2016 – March 31, 2017 and accepts the report.

The City of Sherrill appreciates the feed back and will reflect on the recommendations made. The City is extremely pleased that your audit did not identify any instances of fraud, improprieties, significant discrepancies or misappropriation of funds.

The City will consider the implementation of some or all the recommendations provided by the New York State Comptroller's audit report to strengthen controls and procedures relating to its payroll process and cash receipts activities within the CAC. A corrective actions plan will be submitted to the Office of the New York State Comptroller within 90 days of the release of the final audit report.

Finally, the City of Sherrill would like to thank your audit staff for their professionalism, attentiveness, and thorough work on the audit and for suggesting ways that the City may continue to be more efficient, secure and generally improve in its policies and procedures regarding payroll and CAC cash receipts.

Sincerely,

William Vineall
Mayor

WV:mh

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed City officials and employees and reviewed the City's policies and procedures, CBA, adopted budgets, resolutions and records to gain an understanding of the payroll process.
- We selected a sample of 17 employees including key City officials and reviewed job titles and rates to those listed on the salary schedules in the adopted budget to determine whether City officials accurately paid employees. For hourly employees, we reviewed time records including time cards or time sheets to determine whether hours and times worked agreed with the payroll records and that time records showed evidence of supervisory review and approval.
- We randomly selected four months and obtained weekly payroll reports directly from the vendor and compared them to weekly payroll reports provided to the Comptroller to determine whether they agreed. For the same period, we compared the amounts deducted from the City's bank account with the weekly payroll reports to determine whether the transfers were supported (including federal and State payroll tax withholdings).
- We interviewed City officials to gain an understanding of the Community Activity Center's cash receipts procedures.
- We judgmentally selected two months of cash receipts⁷ from the Community Activity Center and traced from the receipt tapes to supporting records, bank deposit slips and bank statements and the general ledger to determine whether the receipts were properly deposited and recorded.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 size of the relevant population and the sample selected for examination.

⁷ We included the month with the highest revenue.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 Commission to make the CAP available for public review in the City Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
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