



Village of Port Chester

Payroll

Report of Examination

Period Covered:

June 1, 2015 – January 26, 2017

2017M-115



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2017

Dear Village 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 Board of Trustee 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 Village of Port Chester, 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 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 Village of Port Chester (Village) is located in the Town of Rye in Westchester County. The Village covers approximately 2.5 square miles, has approximately 29,000 residents and is governed by an elected Board of Trustees (Board), composed of the Mayor and six Trustees. The Board has the power to levy taxes on real property and to issue debt. Adopted budgets for the general fund were \$38.8 million and \$38.6 million for 2015-16 and 2016-17, respectively. The Board is responsible for the general management and control of the Village finances and overseeing financial activities including the payroll.

The Village Manager and appointed department heads are responsible for the day-to-day management of the Village's activities, including overseeing the finance department and supervising staff that maintain the financial accounting records and process cash receipts. The Treasurer is the custodian of Village funds and is responsible for receiving and recording moneys, reconciling the accounting records to bank statements, providing annual financial reports to the Office of the State Comptroller and the Board, and for providing monthly financial reports to the Board.

Objective

The objective of our audit was to evaluate the accuracy of payroll payments. Our audit addressed the following related question:

- Did Village officials establish adequate procedures to ensure employees' salaries and wages were accurately paid, and leave accruals were properly maintained and recorded?

Scope and Methodology

We examined the Village payroll operations for the period June 1, 2015 through January 26, 2017. We expanded our scope for police department overtime through February 28, 2017 and for Board actions related to new police officers through the 2017-18 budget process.

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

**Comments of Local Officials
and Corrective Action**

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Village’s response letter.

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 Clerk’s office.

Payroll

The Board is responsible for establishing controls over payroll to safeguard Village assets. An effective system of internal controls includes policies and procedures to guide employees when preparing, approving and processing payroll. Overtime should be monitored to help control costs and should only be incurred when unplanned or unforeseen circumstances arise. Leave accruals represent paid time off earned by employees. The accumulation and use of leave time is generally addressed in collective bargaining agreements (CBAs) or Board resolutions, which should clearly identify leave benefits. Policies and procedures should ensure that sufficient records are kept and periodic independent reviews are conducted to ensure that employees only accrue, use and receive pay for time to which they are entitled.

The Village paid approximately \$3 million for overtime wages, with \$2.2 million¹ or 72 percent paid to the police department. Because the police department's management monitored overtime, we were able to determine that over 50 percent of the police department's overtime was due to staff shortages. Based on the overtime hours that resulted from the shortages and the cost of a new officer, we estimate that the Department could hire five new officers without increasing overall costs. With a decrease in overtime, sick time may also decrease. Although the collective bargaining agreements elaborate on leave time accrual records, there are no written policies or procedures governing how leave time accrual records are maintained or who is responsible for monitoring the balances. As a result, 27 out of 50 employees we reviewed (54 percent) carried over vacation leave from year to year even though it was not permitted by their CBAs.

Overtime

Personal service costs represent a significant portion of the Village's budget. While overtime pay can be an expected cost of doing business, it must be carefully monitored and controlled. Overtime should be incurred only when unplanned or unforeseen circumstances arise and cannot be avoided. Although some hours of overtime are unavoidable, overtime resulting from shift coverage can be avoided if proper staffing levels are maintained

During our audit period, the Village paid approximately \$3 million for overtime wages, with approximately \$2.2 million or 72 percent paid to the police department for 27,524 hours of overtime. Due to the significant amount of police department overtime, department

¹ For the period of June 1, 2015 through February 28, 2017

management tracks overtime by function and analyzes overtime earned to understand the causes.

We analyzed the overtime paid to police officers, detectives, lieutenants and sergeants and determined that over 50 percent of the overtime was due to staffing shortages and the need to provide additional staff to cover leave time for vacation, sickness or long term injury.

While the police department is normally staffed with 62 officers, as of February 2017, eight were out of work due to long-term injuries, two were on light duty and one was retired bringing the staffing level to 51 officers. From June 1, 2015 through February 28, 2017, each of the officers worked the equivalent of about 15 extra weeks and sick time increased by 274 percent. Management believes the sick time increase was directly attributable to the significant amount of overtime each officer was required to work.

The average salary and benefits for a new officer is \$76,996 per year. Based on the overtime hours that resulted from the staffing shortage and the cost of a new officer, we estimate that the department could hire five new officers without increasing overall costs. In addition, with a decrease in overtime, sick time may also decrease. Department management requested to fill open positions and hire seven officers as part of the 2017-18 budget. The adopted budget did not authorize filling the open positions or hiring new officers. Therefore, the department will likely continue to operate with a staffing shortage and continue incur high levels of overtime.

Leave Accruals

Policies and procedures help ensure that leave accruals are earned in accordance with CBAs or Board resolutions and that leave used is properly deducted from employee leave accrual balances. Policies and procedures should ensure that employees only accrue, use and receive pay for time to which they are entitled and establish who is responsible for monitoring leave balances to ensure that the accrual and use of leave time is accurate and in compliance with guidelines. All leave time provisions should be explicitly established in the CBAs or Board resolutions.

Village employees are granted vacation, sick and personal leave time according to their positions and years of service. For example, the Police Benefit Association contract stated that full-time employees are granted ten days of vacation leave after the first year of service, 15 days after two years, 20 days after 10 years and 25 days after 20 years or more of service. Unused vacation leave may not be accumulated from year to year without department head approval. If it is approved, the employees are then permitted to carry over 40 to 80 hours of vacation accruals to the next year. In the benefit plan for Appointed/

Non Union Employees, vacation accruals can never exceed 360 hours. Employees may earn compensatory time in lieu of overtime pay for authorized hours in excess of 40 hours in a workweek. Unused compensatory leave may not be accumulated from year to year without department head approval. When excess vacation and compensatory time accruals are permitted, they must be used within the first 60 days of the next fiscal year.

Full time employees are granted one day sick leave per month during the first year of service after the completion of six months of service up until the employees' first June 1st. Afterward, they are granted 12 days of sick leave on June 1st of each contract year. Unused sick leave can be accumulated to an unlimited amount. Full time employees are granted four days of personal leave annually. Unused personal leave for Civil Service Employee Association employees may not be accumulated from year to year.

There are no written policies or procedures governing how accrual records are to be maintained or who is responsible for monitoring the balances. Further, not all provisions, such as compensatory time, were explicitly stated in the CBA's, but were the result of previous CBAs. We reviewed the leave accrual records for 50 employees and found 24 discrepancies (48 percent) where the recalculated beginning leave accrual balances did not match the report provided by the accountant. We also found 27 instances (54 percent) where vacation leave was carried over from year to year even though it was not permitted by their CBAs. For example, one employee had 440 hours of vacation accruals carried over but was only entitled to 40 hours and another employee had 442 hours of vacation accruals carried over but was only entitled to 80 hours. Additionally, when excess accruals of vacation or compensated time were permitted, Village officials did not ensure that they were used within the first 60 days of the next fiscal year.

Village officials were aware of the excess accruals, and stated that a resolution was passed to buy back up to 10 days of vacation time from employees with excess vacation accruals. However, some employees will still be carrying accruals in excess of amounts agreed upon in the CBAs. Without the provisions being explicitly stated, there is a risk that accruals may be incorrectly calculated or provisions misinterpreted.

Recommendations

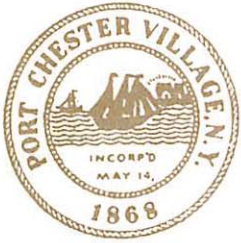
The Board should:

1. Evaluate whether to continue incurring police department overtime to cover staff shortages instead of hiring new officers.

2. Ensure that all current CBAs have all current leave time provisions included.
3. Develop a plan to correct the leave time accrual records and reduce the leave time totals so that they will be in accordance with CBAs.
4. Develop policies and procedures to monitor leave to ensure compliance with CBAs.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The Local Officials' response to this audit can be found on the following page.



VILLAGE OF PORT CHESTER

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September 15, 2017

Village of Port Chester Payroll Report of Examination
For Period covering June 1, 2015 to January 26, 2017.

RESPONSE TO STATE AUDIT

Overtime - Police

We agree with the state auditor's findings that over 50 percent of the police over time was due to staffing shortages and the need to provide additional staff to cover leave time for vacation, sickness or long term injuries.

Recommendations #1

We also agree with the state auditor's recommendation to evaluate as to whether to continue incurring police department overtime to cover staff shortages instead of hiring new officers.

Leave Accruals – Part-time Employees

We do not agree with the state auditor's findings that hourly part-time employees are also granted vacation leave based on years of service and hours worked. There are no CBA's for part-time employees and they do not accrue vacation leave.

See
Note 1
Page 10

Leave Accruals-Full-time Employees

We agree with the state auditor's findings that when excess accruals of vacation or compensated time were permitted, that they were not taken within the first 60 days of the next fiscal year as per the CBA's, and that we were aware of the excess accruals, and that a resolution was passed to buy back up to 10 days of vacation time from employees with excess vacation accruals.

Recommendation #2

We do agree that the CBAs for full-time employees should have all current leave time provisions included.

Recommendation #3

We do not agree with the recommendation to develop a plan to correct the leave time accrual records and reduce the leave time totals so that they will in accordance with CBAs since we have a policy and have already developed a plan to reduce the leave time totals so that they will be in accordance with CBA'S. However, we believe that the Village can benefit from a more formalized policy.

See
Note 2
Page 10

Recommendation #4

We do agree to develop policies and procedures to monitor leave to ensure compliance with CBAs.

Sincerely yours,

Christopher D. Steers
Village Manager

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

We amended the draft report to remove the statement that hourly part-time employees were also granted vacation leave based on years of service and hours worked after Village officials clarified the information initially provided.

Note 2

Although Village officials indicated they have already developed a plan to reduce leave time totals so that they will be in accordance with the CBAs, some employees will still be carrying accruals in excess of amounts agreed upon in the CBAs. Without the provisions being explicitly stated in a plan or policy, there is a risk that accruals may be incorrectly calculated or provisions misinterpreted.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Village officials and reviewed Board minutes and CBAs to identify controls over payroll.
- We interviewed Treasurer's Office staff, department heads and police department staff to determine how payroll transactions are authorized, recorded, processed, approved and reviewed.
- We tested payroll payments for 50 randomly selected employees including full time, part time, seasonal and temporary employees to determine whether they were paid CBA wages.
- We reviewed the Village's payroll to determine the total amount of overtime paid and the portion of that paid to the police department through February 28, 2017.
- We interviewed police department management regarding the policies and procedures for recording, reviewing and approving hours worked; use of leave time; work schedules; overtime authorization and processing and reporting bi-weekly payroll information to the Treasurer's Office and human resources.
- We compared overtime hours and earnings in the Village payroll system to the police department time and attendance records to determine the factors resulting in overtime. We analyzed more than \$1.18 million in overtime paid to 62 police officers.
- We reviewed CBAs to determine how much of each type of accrual (vacation, sick, personal and compensatory time) each employee was entitled to earn.
- We reviewed the leave accrual records for the same 50 employees and documented the beginning leave balances for each employee and how much time was used during the audit period.
- We calculated ending leave balances by taking the beginning balance, adding accruals earned, and subtracting time used. We compared our calculation to the amounts reported on the employee leave balance valuation report to determine whether ending leave balances were accurate. We also determined whether the leave time carried over from year to year was permitted and used within 60 days of the following fiscal year when required when required.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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