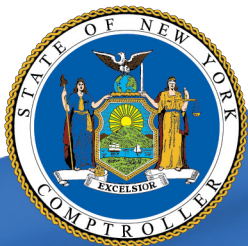


Village of Atlantic Beach

Payroll

MAY 2019



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

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Report Highlights

Village of Atlantic Beach

Audit Objective

Determine whether Village officials ensured that salaries were paid accurately to employees.

Key Findings

Village officials:

- Did not perform an independent review of payroll activities before payment.

The Board:

- Did not audit and approve the building permit fees paid to the building inspector.
- Underbudgeted the amount paid to the building inspector by an average of \$45,214 (113 percent) from 2015-16 through 2017-18. As a result, the budget did not reflect realistic appropriations for the building inspector's permit fees each year, based on recent trends.

Key Recommendations

- Ensure that payroll is reviewed and certified by an individual independent of payroll processing before payment.
- Audit and approve all payroll payments that are not based on fixed salaries or wages and review the payment arrangement for the building inspector position to ensure all salary and benefits are clearly documented in the minutes and accurately presented in the budget.

Village officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Village of Atlantic Beach (Village) is located in the Town of Hempstead in Nassau County. The Village is governed by an elected Board of Trustees (Board), which is composed of four Trustees and the Mayor. The Board is responsible for the overall management and oversight of operations, including the payroll. The Treasurer, who is appointed, is responsible for receiving, disbursing and maintaining custody of Village money.

The Village provides various services to its residents including street maintenance, snow removal, recreation and street lighting. These services are funded primarily by real property taxes.

Quick Facts

Employees	15
2017-18 General Fund Expenditures	\$3.4 Million
2016-17 Payroll Expenditures	\$1.1 Million

Audit Period

June 1, 2016 – February 28, 2018. We extended our audit period back to June 1, 2015 and forward through May 31, 2018 to review payroll payments for building permit fees.

Payroll

What Is an Effective Payroll Process?

Payroll makes up a significant portion of a village's operating costs. Therefore, village officials should establish procedures to ensure that employees are paid the salaries and wages authorized by the board.

New York State Village Law¹ authorizes fixed salary or wages paid by the hour, day, week, month or year to be paid without prior audit and requires all payroll or claims for compensation be certified by the village officer or employee who directly supervises the employee. Before payroll is finalized, registers or similar records should be reviewed and independently certified to provide oversight of the payroll process.

Payroll Is Not Adequately Reviewed

The Village paid gross salaries totaling \$1.9 million during our audit period to 12 full-time, three part-time employees and 88 seasonal² employees. Salaries are generally approved by the Board in the annual budget. The payroll clerk enters and updates pay rates in the payroll system based on salaries included in the adopted budget.

Village employees generally clock in and out daily with their assigned timecards. Timecards of employees for the public works and security departments are reviewed and signed by their supervisor at the end of the week before payroll is prepared. Seasonal employees' payroll hours are recorded by the beach manager on a spreadsheet, which is submitted to the payroll clerk for processing. While these department supervisors review and sign timecards, there are no procedures to provide a review of timecards for office staff and supervisors. In addition, Village officials do not review the payroll clerks' payroll calculations or entered data for accuracy before payroll is finalized.

We reviewed payroll records for seven permanent full-time employees³ who were paid a combined gross salary of \$543,626 from June 1, 2016 through May 31, 2017. We reviewed these employees' salary payments, totaling \$145,307 for the period October 1 through January 1, 2018, which covered 14 payroll periods, to determine whether hours worked, as recorded by the time clock, were accurately reflected on the payroll registers, salaries and pay rates agreed with those authorized by the Board, leave time used was deducted from the leave balances and gross salaries were correctly calculated.

1 New York State Village Law (Village Law), Section 5-524

2 Individuals hired to work during the summer

3 See Appendix B for information on our sampling methodology.

Employee salary and rates paid generally agreed with those included in the adopted budget and leave was accurately deducted from employee leave balances. However, we found that the building inspector was paid \$61,000 more than the amount budgeted for in 2016-17.

Although we did not find any material discrepancies, when there is no review of payroll by an individual independent of the payroll process before payment, errors and irregularities could occur and go undetected.

The Board Did Not Properly Approve or Budget For the Building Inspector's Salary

The Board did not annually appoint the building inspector or clearly approve and document the terms of his compensation. The individual serving as building inspector is also the Village's superintendent of public works. The superintendent of public works is paid a salary for the position of superintendent separate and apart from that of the building inspector.⁴

In January 2005, the Board adopted a resolution stating that the inspector would receive \$400 each month and, as additional compensation, would receive 50 percent of all building permit fees collected each month. The Board has not updated the building inspector's compensation arrangement since then. However, there is no provision in Village Law that authorizes compensation to employees and officers, such as the building inspector, based on a percentage of the fees charged, which makes it questionable as to whether such an arrangement is authorized.

Paying Village inspectors on a fee-basis creates an appearance of potential impropriety, as inspectors could have an incentive to issue more permits. While the basis of compensation was not within the scope of our audit work, this issue should be addressed by the Board in consultation with the Village attorney.

The building inspector received an annual salary of \$4,800 and 50 percent of all building permit fees collected each year, based on the 2005 resolution. However, Village officials budgeted \$40,000 for the inspector's pay for each of the last three years. In 2017-18, the building inspector was paid permit fees totaling \$80,550, in 2016-17 he was paid \$100,955 and in 2015-16 his share of permit fees totaled \$74,136 including his \$4,800 salary.

Although the permit fees on which this pay is based fluctuate from year-to-year, the \$40,000 appropriation included in the recent budgets was not reflective of recent trends for the amount expected to be paid to the inspector each year. As a

⁴ During 2016-17, this employee was paid a salary of \$86,998 and \$15,258 in overtime for the superintendent position, and \$100,955 in building permit fees for the building inspector position, a combined total of \$203,201.

result, the building inspector's total salary (including the estimated share of permit fees) was underbudgeted by an average of \$45,214 (113 percent) from 2015-16 through 2017-18. We reviewed the 2018-19 budget and found that officials budgeted similarly and included only \$40,000 for the building inspector's total salary.

The monthly payroll calculation for the building inspector's share of permit fees was performed by the deputy clerk and submitted to the payroll clerk for payment. While Village Law⁵ authorizes fixed salary or agreed upon wages to be paid without prior audit, the claims for the permit fees should have been presented to the Board for audit before payment.

In addition, because the Board has not approved the building inspector's salary arrangement since 2005, his salary was not accurately budgeted and the permit payments were not audited and approved by the Board, it is not clear that the Board has considered the actual total cost of the Building Inspector's pay for this position. While the Board agreed to pay the building inspector 50 percent of the permit fees, there are additional costs associated with this compensation such as payroll taxes and retirement contributions.⁶ Therefore, when benefits are considered, the building inspector actually received more than 50 percent of the permit fees.

Although we did not find any discrepancies in the calculation of the building inspector's salary and share of permit fees, when the Board does not properly approve salaries and payments are not reviewed, there is an increased risk that employees could be paid more than intended. Further, when salaries and payment arrangements are not clearly documented in the budget and Board minutes, these payments are not transparent to taxpayers.

What Do We Recommend?

The Board should:

1. Ensure that timecards are approved by the officer or employee who directly supervises the employee before payment.
2. Ensure that payroll is reviewed and certified by an individual independent of payroll processing before payroll payments are made.
3. Audit all payroll payments that are not based on fixed salaries or wages.

5 Village Law, Section 5-524

6 The Village paid approximately \$9,086 in retirement contribution for the permit fee payments in 2016-17.

-
4. Consult with the Village attorney regarding the payment arrangement for the building inspector position and review and update the arrangement to ensure that compensation for the position complies with Village Law and is clearly and accurately reflected in the Board minutes, annual budgets and salary schedules.

Appendix A: Response From Village Officials



INCORPORATED

Village of Atlantic Beach

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April 25, 2019

Mr. Ira McCracken, Chief Examiner
New York State Office Building - Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788

Dear Mr. McCracken:

This letter is in regard to the Office of the State Comptroller's Report of Examination exit conference held on March 26, 2019.

The Village wishes to respond to the findings as follows:

Payroll

The report indicates all salaries and pay rates agreed with those authorized by the Board and salaries and leave time were properly calculated. The Village agrees members of the Board should review payroll each week to ensure payroll is being processed properly.

As part of the budget process, the Board estimates the amount of permit fee income to be collected. The Building Inspector's salary is a direct function of the permit fee income. It is the Board's policy to budget income on a conservative basis due to uncertainties. As a result, the salary actually paid may differ than the amount budgeted. Accordingly, at a Village Board meeting, the Board may make adjustments to ensure proper budgeting.

- 2 -

The Village agrees the Building Inspectors compensation should be updated at our annual organizational meeting.

In conclusion, the Village has already implemented a system to ensure all payroll processing is approved and properly reported. The Village recognizes although all employees were paid properly during the audit period there was a point of weakness that needed to be addressed.

Yours very truly,

George J. Pappas
Mayor

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 objective⁷ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to gain an understanding of the payroll process.
- We obtained the Board approved salaries included in the adopted budget for June 1, 2016 through May 31, 2017 for all employees (excluding seasonal employees). We compared their budgeted salaries to the total salary paid for that same period to identify any significant variances. We selected the employees whose salary exceeded the budgeted amounts and employees with the most overtime payments resulting in a total of seven employees.
- We reviewed gross salaries paid to these seven employees from October 1 through January 1, 2018 (14 pay periods) to determine whether hours worked as recorded by the time clock were accurately reflected on the payroll registers, salaries and pay rates agreed with those authorized by the Board, leave days taken were accurately recorded on leave records and gross salaries were calculated correctly.
- We reviewed resolution establishing terms of compensation to the building inspector for permit fees and board minutes to determine whether he was appointed during our audit period. We reviewed payroll records and other available records to determine how much he was paid for permit fees from 2015-16 through 2017-18.
- We compared the Building Inspector's budgeted salary and permit fees to the actual amount paid to determine variance for 2015-16 through 2017-18.

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

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.

⁷ We also issued a separate audit report, *Village of Atlantic Beach – Cash Disbursements (2018M-253)*.

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 Board to make the CAP available for public review in the 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/pubs/cyber-security-guide.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

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

Local Government and School Accountability Help Line: (866) 321-8503

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