



Town of Rensselaerville

Internal Controls Over Payroll and Personal Services

Report of Examination

Period Covered:

January 1, 2006 — December 31, 2006

2007M-80



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2007

Dear Local 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 is mandated to oversee the fiscal affairs of local governments statewide, as well as their compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished 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 Rensselaerville, entitled Internal Controls Over Payroll and Personal Services. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials 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 Rensselaerville (Town) is located in Albany County. According to the 2000 Federal Census, the Town had a population of 1,915. The Town's adopted budget for 2007 totaled \$2.3 million.

The responsibility for effective planning and management of the operations of the Town generally rests with both the Town Supervisor (Supervisor) and the Town Board (Board). The Supervisor is the Town's chief fiscal officer and chief executive officer. The Board is responsible for the general management and oversight of the Town.

The Highway Superintendent (Superintendent) is an elected official with specific duties and responsibilities under Highway Law. The Superintendent is primarily responsible for highway operations in the Town. The Superintendent is responsible for overseeing ten full-time Highway Department employees and an adopted budget of \$1.1 million for 2007. For 2007, Highway Department personal services and related fringe benefits were budgeted at \$564,000.

Scope and Objective

The objective of our audit was to examine the Town's internal controls over payroll and personal services for the period January 1, 2006 to December 31, 2006. Our audit addressed the following related question:

- Are internal controls over payroll and personal services appropriately designed and operating effectively?

Audit Results

The Supervisor, Superintendent and the Board have not established an adequate system of internal controls for payroll and personal services. Internal controls that were established, such as the use of a time clock by Highway Department employees, were routinely ignored. As a result, errors and irregularities may have occurred in the payment of wages to Town employees and gone undetected and uncorrected.

We found that there were no comprehensive policies and procedures to safeguard Town assets in the payroll process. Policies that did exist were not relevant and/or were outdated. For example, the employee manual covers a class of employees that does not currently exist at the Town.

The Town's Highway Department procedures require that employees use a time clock to record beginning and ending work times. Despite the fact that the time clock is located in the Highway Department garage, and is easily accessible to all Highway Department employees, we found that employees were not routinely using the time clock to indicate their beginning or ending work times. Instead, we found that someone had written their beginning or ending work times on 123 of the 520 time cards that we examined. This failure to consistently use the time clock is a significant breakdown in controls because it allows employees to alter the beginning and ending times on their time cards.

For overtime hours paid to Highway Department employees, we found that the Superintendent had no formal records of his pre-approval for overtime hours worked by employees. In addition, we found that Employee Reports, documenting overtime hours worked and the work performed, were not properly completed and were missing for six workdays during June 2006. As a result, the Town paid \$9,262 (not including fringe benefits) for 393 overtime hours to Highway Department employees without adequate documentation. In addition, Town officials could not provide us with time records that documented \$2,680 (not including Fringe benefits) in wages paid to two temporary part-time employees.

Finally, the Supervisor and the Superintendent did not certify or approve the weekly payrolls. The Supervisor also did not perform any reviews of payroll that would have disclosed a pay rate discrepancy for the bookkeeper/clerk and incorrectly prepared W-2 forms.

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. The Supervisor generally agreed with our recommendations and indicated the Town planned to initiate corrective action. The Superintendent's response letter is also included in Appendix A. OSC comments concerning the response letters can be found in Appendix B.

Introduction

Background

The Town of Rensselaerville (Town) is located in Albany County. According to the 2000 Federal Census, the Town had a population of 1,915. The Town's adopted budget for 2007 included \$2.3 million in total appropriations, of which \$1.1 million were budgeted for Highway operations. Personal service and related fringe-benefit costs for the Highway Department were budgeted at \$564,000 for 2007.

The Town Supervisor (Supervisor) is the Town's chief fiscal officer and chief executive officer. The Supervisor is responsible for authorizing all disbursements, including payroll payments for personal services. The responsibility for effective planning and management of the operations of the Town generally rests with both the Supervisor and the Town Board (Board).

As of January 1, 2007, the Town employed ten full-time highway employees and 24 part-time Town employees. The full-time workweek for highway employees runs from Sunday through Saturday and is based on an eight-hour workday, five days per week. The Town's payroll is processed in-house on a weekly basis. The Town's bookkeeper/clerk performs the weekly payroll processing and maintains leave time records and computerized payroll records.

The Highway Superintendent (Superintendent) is an elected official who has specific duties and responsibilities under Highway Law. The Superintendent is primarily responsible for Highway Department operations.

Objective

The objective of our audit was to examine the Town's internal controls over payroll and personal services. Our audit addressed the following related question:

- Are internal controls over payroll and personal services appropriately designed and operating effectively?

Scope and Methodology

We examined the Town's payroll records and evaluated Town's internal controls over payroll and personal services for the period January 1, 2006 to December 31, 2006.

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.

**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 Supervisor generally agreed with our recommendations and indicated the Town planned to initiate corrective action. The Superintendent's response letter is also included in Appendix A. OSC comments concerning the response letters can be found in Appendix B.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Payroll and Personal Services

A primary objective of internal controls over payroll and personal services is to ensure that wages and salaries are paid only for authorized work that is effectively performed. Internal controls over payroll consist of written policies and procedures that describe employee responsibilities for properly accounting for hours worked and management oversight of the payroll process. It is important for these policies and procedures to address internal controls over timekeeping, overtime, and supervisory oversight.

We found significant weaknesses in internal controls over payroll and personal services. The Town's written policies and procedures are inadequate or nonexistent, irregularities exist in the recordkeeping for hourly employees, and limited oversight exists in the payroll process. As a result, there is an increased risk that the Town may pay for work that was not performed.

Policies and Procedures

Good internal controls over payroll begin with Board-adopted policies and procedures that provide reasonable assurance that resources are safeguarded and properly accounted for. The Supervisor, Board and appropriate departmental officials are responsible for establishing and implementing policies and procedures over payroll. Such policies and procedures normally consist of an employee manual that describes employee responsibilities when preparing and disbursing payrolls, and provides guidance regarding employee entitlements such as wages, salaries, leave benefits, and health insurance. Such policies and procedures also generally include requirements for timekeeping and supervisory approval of employees' time worked.

The Town's written policies and procedures over payroll and personal services are inadequate. The only policies and procedures that the Town has for payroll and personal services are contained in an employee manual. The employee manual has not been updated since December 27, 1996. The employee manual provides instructions only for full-time employees who are not covered under a collective bargaining agreement and are not elected officials. Because all of the Town employees are hourly employees, except for the elected officials, the employee manual is not applicable to any of the Town employees. There are no policies and procedures that address employee responsibilities for preparing and disbursing payroll, recordkeeping requirements for hourly employees, or supervisory oversight duties.

In addition, the Town's code of ethics policy has not been updated since 1970. The code of ethics provides officials and employees with

standards of conduct that they must maintain while employed by the Town.

Because the Town did not have an updated, comprehensive payroll policy to provide guidance to Town officials and employees, Highway Department employees did not use the time clock as required and the Superintendent or his designee did not properly supervise his employees' use of the time clock. Further, the Superintendent did not formally approve overtime hours worked by his employees, and employees did not always fill out the required daily Employee Reports causing the Town to pay more than \$9,000 (not including fringe benefits) for overtime work that was not properly documented. Refer to the Highway Payroll Controls section for further information.

Highway Payroll Controls

The Superintendent is responsible for virtually all aspects of highway operations. This responsibility includes establishing internal controls to ensure that the hours worked for all Highway Department employees are properly recorded. The Superintendent had practically no internal controls in effect to properly account for hours worked by Highway Department employees.

Timekeeping — Effective control over payroll operations begins with accurate recordkeeping. Hourly employees must make an accurate account of their starting and ending times for each workday, and for any leave time that they used during the workday. If used properly, a time clock (and time cards) can provide a reliable record of actual hours worked by each employee. The time clock must be used routinely and be placed in a location where someone can observe its use.

Another important control for payroll operations is effective supervision. Effective supervision ensures all employees follow proper timekeeping procedures. Such procedures can include the required use of a time clock and time cards.

The Town requires Highway Department employees to use a time clock to record their work hours each day. We reviewed 520 weekly Highway Department time cards and payroll reports for 2006 and found that employees had not used 123 time cards properly. Each of these 123 time cards contained handwritten work times/hours instead of hours recorded by the time clock. For example, on December 26, 2006, four employees' time cards included handwritten hours that were beyond the normal workday (6:12 p.m.–9:12 p.m.), which provided three hours of overtime for each employee. We found sporadic instances where employees had punched in, but not punched out, and someone had indicated in handwriting on their time cards the time that the employees had ended their workday. All 123 time cards had supervisory approval.

The Highway Superintendent told us that the Highway Department employees often forgot to punch in or out. Because the time clock is located at the Highway Department garage where the employees begin and end each workday, it seems unlikely that forgetfulness alone can account for the large number of time cards that were not used properly. Inadequate supervision is more likely the cause.

The intermittent use of the Highway Department time clock negates any control that the clock was intended to provide. Without consistent, supervised use of the time clock, the Town has an increased risk that it may pay employees for time they did not work.

Overtime — When employees work beyond their normal working hours (overtime), the Town must institute additional payroll and supervisory controls. Overtime hours often are paid at a higher pay rate, which causes related payroll costs to accumulate quickly. Supervisors must formally approve all overtime work hours before employees perform the work. It is important for supervisors to make detailed records of their approval for overtime hours, including the date and time of their approval, the purpose of the overtime work, and the supervisors' authorizing signature.

The ten Highway Department employees are the only Town employees who receive overtime. The collective bargaining agreement in effect for these employees during our audit period states that all overtime work must be approved by the Superintendent. During our review of the overtime paid to these employees, we noted that the Superintendent did not have any formal procedures for this process. The records that he maintained to document his prior supervisory approval for overtime hours were informal – the records consisted of notations on pieces of paper, instead of formal signed documents – and he maintained them only sporadically.

In addition, the details of the overtime worked were inadequate. As noted in the Timekeeping section, the Highway Department employees did not use the weekly time cards properly and, therefore, the time cards are not a sufficient source for confirming hours worked. Except for these time cards, the only records maintained by the Highway Department to support work performed are the Employee Report of Operation forms (Employee Reports).

The Town's informal process is that Highway Department employees must complete an "Employee Report" every day and when using Town equipment. On this form, employees must record the date of the work done with the Town's equipment, the starting and ending mileage readings, the type of job/project worked on, and the total number of employees that worked on the job. Employees also must sign the

completed forms. The Superintendent told us that he occasionally compares the Employee Reports to the employee weekly time cards. However, the Superintendent did not provide us with any records to confirm his statement.

To substantiate the overtime paid by the Town, we reviewed each Highway Department employee's time cards and the June 2006 Employee Reports and found that Employee Reports were missing for six workdays. In addition, eight of the reports reviewed did not have employee start and end times, an employee signature, and the type of job/project completed. In 2006, the Town paid for 982 hours of overtime, of which 393 hours (40 percent) were unsupported by any Employee Report. As a result, the Town paid \$9,262 (not including fringe benefits) for overtime work that was not properly documented.

Without a detailed record justifying all overtime hours worked and approvals by the Superintendent, the Town has an increased risk that it may pay employees for overtime hours that were classified improperly as overtime, that they did not work, or for work that they could have performed during regular work hours.

Other Payroll Issues

In addition to the lack of policies and procedures and significant deficiencies in the Highway Department's payroll process, we also found deficiencies in the Town's time records for its other employees and in the supervisory review of its overall payroll process.

Time Records — We reviewed the weekly time records of the 14 part-time Town employees and found that the Supervisor had not required two temporary part-time Town employees to complete weekly time records, but instead required them to provide a list of the total hours that they worked. However, Town officials could not provide us with the list of the total hours worked by these two employees. As a result, the Town had no documentation to support the payments to these two employees, which totaled \$2,680 (not including fringe benefits) for 134 hours (\$20 per hour) of work. Without a detailed record of hours worked, the Town has an increased risk that it may pay employees for hours that they did not work.

Supervisory Review — Another control for effective payroll processing involves requiring supervisory approval of the completed payroll prior to issuing employee paychecks. Also, Town Law states that the Town must ensure that its department heads sign the payroll, certifying its accuracy, before the Town distributes employee paychecks. By certifying the payroll, the Supervisor and Superintendent attest to the validity of the payroll and authorize the Town to pay those employees.

The Supervisor and the Superintendent did not certify the weekly payroll for their respective employees. Without this review and authorization there is an increased risk that payroll errors or irregularities may occur and not be detected in a timely manner.

In addition, it is important for someone who is independent of the payroll process to routinely perform analytical reviews of payroll earnings records, appropriations ledgers, and other payroll records, including employee W-2 forms. These reviews become particularly important when it is not feasible for the entity to provide proper segregation of payroll duties. In a small local government such as the Town, it is not practicable to segregate all payroll functions. However, analytical reviews and payroll certifications can help reveal unusual items or trends requiring further investigation, and can lead to the discovery of items that do not fit expected patterns, seem out of place, or that do not comply with known authorizations.

Town officials did not perform periodic reviews of payroll accounts and overtime. The lack of these reviews is a serious control weakness because the Supervisor and Superintendent do not provide mitigating controls by certifying weekly payrolls.

As a result of the lack of periodic review by the Supervisor, we found the following deficiencies:

- The Town bookkeeper/clerk was paid \$13.31 per hour, instead of the \$12.95 per hour, as stated per the January 2006 Board minutes. We found no formal authorization to substantiate the increase in the bookkeeper/clerk's hourly rate.
- The Supervisor did not review the employees' W-2 forms before the Town sent the W-2s to the employees. We reviewed five of the W-2 forms and found that two W-2s were incorrect. After we brought this to the Town's attention, Town personnel corrected the W-2s and reissued the forms to the employees.

Because the Supervisor and the Superintendent did not certify the weekly payrolls, and because Town officials did not perform periodic reviews of payroll accounts and overtime, the Town has an increased risk that it could overpay or underpay Town employees and not detect these errors in a timely manner.

Recommendations

1. The Board should adopt a payroll policy that clearly documents the entire payroll process, particularly employee and supervisor responsibilities for preparing and approving time records. As part of that process, the Board also should review and update the employee manual and the Town's code of ethics.

2. The Superintendent should ensure that Highway Department employees properly use the time clock. The Superintendent or Deputy Superintendent should supervise employees as they punch their time cards. If the time clock is not used for a beginning or ending time, the Superintendent should provide a handwritten notation on the time card to document the reason why the time clock was not used and to confirm that the employee worked the hours indicated.
3. The Superintendent should formally pre-approve and document all overtime worked by Highway Department employees. He should maintain overtime records that indicate the date and time that he approved the overtime and the reasons why it was necessary for employees to work overtime. He also should include in the overtime records the names of the employees who are authorized to work overtime.
4. The Supervisor and Superintendent should review and certify that the weekly payrolls are accurate and the charges are proper for their respective department payrolls before the Town distributes employee paychecks.
5. The Board should require that all hourly employees maintain accurate and detailed records of hours of time worked.
6. The Board should routinely analyze payroll data for reasonableness and investigate any unusual items.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The Town officials' responses to this audit can be found on the following pages.

The Supervisor's response letter makes specific references to page numbers contained in our draft report. Because of formatting changes, the page numbers may differ in the final report. In addition, the response letters include or make reference to attachments that support the response letter. Because the response letters provide sufficient detail of actions taken, we did not include the attachments in Appendix A.

TOWN OF RENSSELAERVILLE

87 Barger Road, Medusa, NY 12120

(518) 797-3798 (518) 239-4225

Fax (518) 239-6339

T.D.D. 1-800-662-1220

Town Clerk &

Tax Collector

Kathleen A. Hallenbeck

Superintendent

of Highways

G. Jon Chase

Councilmen

J. Robert Lansing

Sherri Pine

Myra Dorman

Gary Chase

Town Supervisor

Jost Nickelsberg

Assessor

Peter H. Hotaling, Jr.

Jeffrey R. Pine

Donna Kropp

Attorney

Tabner, Ryan, and Keniry, LLP

Town Justice

Victor La Plante

Victoria K. Geldner

Building Inspector &

Code Enforcement Officer

Mark Overbaugh

June 18, 2007

Office of the State Comptroller
Division of Local Government Services
22 Computer Drive West
Albany NY 12205

Dear [REDACTED],

Thank you for providing our Town with the draft "Town of Rensselaerville Internal Controls Over Payroll and Personal Services, Report of Examination, Period Covered: January 1, 2006-December 31, 2006."

Regarding the facts in the above referenced document, page 5 states "Employee Reports that document overtime hours worked and the work performed, were not properly completed and were missing for six workdays during June 2006. As a result the Town paid \$9,262 for 393 overtime hours to Highway Department employees without adequate documentation." On page 9 there is again reference to, "more than \$9,000 for overtime work that was not properly documented" And on page 10 "the Town paid \$9,262 for overtime worked that was not properly documented." The amount \$9,262 is strictly based on hourly wage. The correct number on all referenced pages should read \$9,262 based on hourly wages and not including fringe benefits for all hourly employees.

See
Note 1
Page 21

Page 5 also notes, "Finally, the Supervisor and the Superintendent did not certify or approve the weekly payrolls." Page 11 states "The Supervisor and Superintendent did not certify the weekly payroll for their respective employees." As Town Supervisor I signed the payroll checks after the Deputy Superintendent certified and signed the timecards. Thus I approved the weekly payroll. Due to your recommendations we have set up a procedure that the Town Supervisor and Highway Superintendent (or Deputy) shall certify and sign the final payroll transaction list.

Page 4 states, "The responsibility for effective planning and management of the operations of the Town rests with both the Town Supervisor (Supervisor) and the Town Board (Board). The Supervisor is the Town's chief fiscal officer and chief executive officer. The Board is responsible for the general management and oversight of the Town." Yet page 9 states "The Superintendent is responsible for virtually all aspects of highway operations. This responsibility includes establishing internal controls to ensure that the hours worked for all highway department employees are properly recorded. The Superintendent had practically no internal controls in effect to properly account for

hours worked by highway Department employees.” Yet page 8 states, “Because the Town did not have an updated, comprehensive payroll policy to provide guidance to Town officials and employees, Highway Department employees did not use the time clock as required and the Superintendent did not properly supervise his employees’ use of the time clock.” I ask for further guidance in this area. Please clarify the responsibility of the Supervisor, Town Board and Superintendent.

See
Note 2
Page 21

With regard to recommendation 1 on page 12, on June 14, 2007 the Board adopted “Town of Rensselaerville Employee Policy Manual” and “Ethics Resolution”. The documents are attached for your review. We are currently working on a payroll policy and would like to use the model from the Office of the State Comptroller. Please provide for our reference.

With regard to recommendation 2, please see the memo dated May 24, 2007. This procedure will be adopted at the July 12, 2007 Town Board meeting. This issue will also be addressed in the payroll policy.

With regard to recommendation 3, please refer to the Highway Superintendent’s separate letter. We understand that Mr. Chase wrote to you independently. The Town Board will be drafting documents for the Superintendent to use for overtime and payroll costing.

With regard to recommendation 4, I continue to sign all paychecks and at that time review certify that all front office weekly payrolls are accurate. At that time I also certify that the Highway Superintendent or Deputy Highway Superintendent has certified that the highway department time cards are accurate. We have set up a procedure that the Town Supervisor and Highway Superintendent (or Deputy) shall certify and sign the final payroll transaction list. Refer to the Highway Superintendent’s separate letter. We understand that Mr. Chase wrote to you independently.

With regard to recommendation 5, please refer to the “Town of Rensselaerville Employee Policy Manual” section 400 Operational Policies and the memo dated May 24, 2007. This will also be addressed in more detail in the payroll policy. The final payroll policy will include, in addition to time cards, completed daily worksheets for all highway employees.

With regard to recommendation 6, the Board currently reviews and approves the monthly budgetary expenditures for payroll. There is new accounting software in place as of January 2007 that should make reviews more thorough. The Board will pass a resolution for a quarterly review of payroll data and will conduct an immediate investigation of any unusual items.

Attached please find a letter from Kathleen Hallenbeck, Town Clerk, regarding the policy for vacations for an elected official.

See
Note 3
Page 21

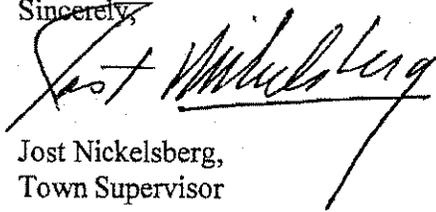
The temporary employees referenced on page 11 have been asked to punch time cards or use an official time sheet in order to comply with your recommendations.

Regarding the facts in the above referenced document, page 3 states "A top priority of the Office of 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 is mandated to oversee the fiscal affairs of local governments statewide, as well as their compliance with relevant statutes and observance of good business practices." This audit only touches on two aspects of our Town's fiscal affairs. We agree with your recommendations thus far and still request a full audit. As I stated at the exit discussion on May 23, 2007 this audit was performed at the Town's request. I asked for a complete audit of all aspects of our Town government. It was your decision to limit the audit to payroll and personal services. Again I am requesting a complete audit and remain particularly concerned regarding procurement policies.

See
Note 4
Page 21

On behalf of the Town I would like to thank all those involved in this audit. We take your recommendations seriously and will benefit from implementing your recommendations.

Sincerely,

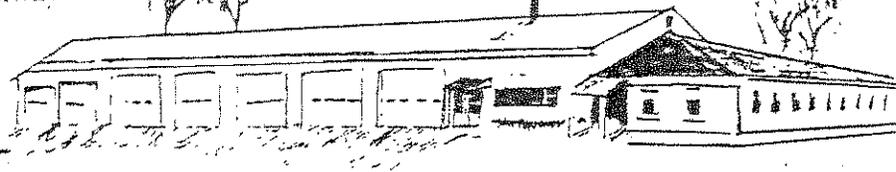


Jost Nickelsberg,
Town Supervisor

JN:cb
File
Attachments

Town of Rensselaerville

G. Jon Chase
Superintendent of Highways



87 Barger Road
Medusa, NY 12120

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518-797-3798
Fax 518-239-6339

Thomas P. Dinapoli
New-York State Comptroller
110 State Street
Albany, NY 12236

RECEIVED
EXECUTIVE CORRESPONDENCE

JUN 15 2007

OFFICE OF THE STATE COMPTROLLER
THOMAS P. DINAPOLI
COMPTROLLER

Dear Mr. Dinapoli:

This letter is in regard to the audit of 2006 for payroll and personal services that was performed by [REDACTED] for Local Government and School Accountability, and his staff for the Town of Rensselaerville, 87 Barger Rd., Medusa NY 12120. I received a letter from him dated May 16th, 2007 stating that he was scheduling an exit discussion on May 23, 2007 at 10 AM at the Town of Rensselaerville building to discuss the preliminary draft findings.

During the auditing process, I, G. Jon Chase, Superintendent of Highways, was available for any information or questions they wanted answered about time cards and payroll. The front office told me that the auditor was there and I proceeded to the front to discuss the findings of which I had received the Report of Examination. I was then told that he was in a meeting with the Supervisor with the door shut. In the past, all people in the report met as a group and discussed the findings. Over an hour later the door opened and the auditor and his staff went out the front door. The Town Clerk, who's office was directly across from the meeting room, went out the door and asked about the Superintendent and the Town Clerk meeting with him and he said he didn't have time and it wasn't necessary as he and the Supervisor had discussed all departments and he didn't know we were there even though he spoke with the Town Clerk when he came in. She explained to him that the Superintendent and she had waited all morning for their chance to go over issues concerning their departments. He left. The Clerk then called the number given on the enclosed letter and told them she was not very happy about the situation. A meeting was then scheduled at the auditor's building.

See
Note 5
Page 21

My wife, who volunteers her time as my clerk (the Supervisor does not see the need for me to have any help with bookwork even though he has a clerk, an accountant and a bookkeeper) went with me and was told because she wasn't on the payroll she was not allowed in the meeting. [REDACTED] was very rude. He treated me like I was a criminal. They had nothing to say but "What don't you like with the report?" As I was speaking, they treated me like I was not important. There really was no discussion.

See
Note 5
Page 21

I would like to know if this is how your employees are expected to treat people? If so, there should be respect to the elected official that has to work with respect for people that we work for. I feel that, as my State Comptroller, you should advise those you hire to represent you to respect the people they come in contact with like a human being.

See
Note 6
Page 21

Here are some of the issues I wanted to discuss with them..

On page 9

1) Time clock..The time clock is just inside the door the men enter each day. There is only one room and that is where the clock, table and chairs and such are. The employees come through the door and punch in.

2) Time cards with hand written times: The highway employees are union. Under the contract, there is a minimum of 3 hours overtime when they are called out for instances such as weather (snow, sleet, rain), downed trees, and other emergency situations. Should a tree that has fallen and is blocking a road need to be cut up and removed...it probably would not take 3 hours, however, they will still be paid the three hours and thence the writing in of the time. Should the power be out, the time clock would not work. As human beings, we do on occasion forget to do things such as punch in or out and the time would need to be written in.

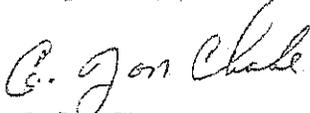
3) Overtime—the sheet says, “the Supervisors must formally approve all overtime work hours before employees perform the work.” If this really means the Superintendent, I, or my deputy if I am not available, am the one who calls the men out for instances as listed above and they would not go out on their own. If you mean the Town Supervisor, he should not need to be called at 1 AM in the morning to get permission for the highway employees to plow snow or cut fallen trees or finish a load of blacktop on a road project after the normal working hours.

See
Note 7
Page 22

4) On January 1, 2007, my highway deputy was appointed as the timekeeper for the highway employees...giving him the authority to oversee the time cards.

I would appreciate a letter from you to your auditors explaining the way to respect their clients and a letter to me in regards to this report.

Respectfully yours,



G. Jon Chase
Superintendent of Highways
Town of Rensselaerville

APPENDIX B

OSC COMMENTS ON THE TOWN OFFICIALS' RESPONSES

Note 1

We have amended our report to provide further clarification.

Note 2

We have amended our report to provide further clarification. In summary, the Board is responsible for adopting internal control policies and procedures that help safeguard Town assets. The Supervisor and Superintendent should provide input in designing these internal controls and are responsible for implementing those applicable to their offices.

Note 3

We have amended our report based on the information submitted.

Note 4

The Supervisor did request a financial and management audit of all Town departments. However, as is our standard practice in conducting audits, we focused our audit on the areas of Town operations that we believed to be most at risk for errors and irregularities. These areas were payroll and personal services. We will consider the Supervisor's request for additional audit services, as resources permit, in planning future audits.

Note 5

The Superintendent was notified by a letter dated May 16, 2007 of the exit discussion to be held on May 23, 2007. The Superintendent did not attend the exit discussion. When the Superintendent made our auditors aware of his desire to discuss the results of the audit, we acted within hours to schedule a meeting at a time and place acceptable to the Superintendent. A separate exit discussion was held with the Superintendent on May 29, 2007.

Note 6

We are disappointed with the Superintendent's commentary concerning this meeting. First, since exit discussions are considered part of the audit process, the information discussed is considered confidential until our report is publicly released. Therefore, it is our policy not to discuss audit findings with any individual who is not an officer or employee of the local government because of the confidential nature of the material discussed.

Further, we disagree with the Superintendent's assertions concerning the conduct of OSC staff at this meeting. Senior OSC managers have reviewed and discussed the events surrounding the staff's interactions with the Superintendent, and have concluded that our staff conducted themselves in a

professional manner. We regret any miscommunication or misunderstanding that may have occurred during these exit discussions.

Note 7

The Highway Department should have a procedure to formally document the pre-approval of overtime. This pre-approval should be performed by the Superintendent or his authorized designee and retained on file as proof that overtime was authorized.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to determine whether internal controls over payrolls and personal services were appropriately designed and operating effectively. To accomplish our objective, we examined payroll and personnel records and reviewed various policies and documents. We also reviewed various policies and documents for the audit period.

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

- We interviewed appropriate Town officials and employees to understand the procedures the Town used to process their weekly payroll and safeguard personnel records. Based on our interviews and observation of the weekly payroll process, we flowcharted the Town and Highway Departments' weekly payroll process to document our understanding of each process and to determine if proper controls were in place.
- We reviewed the Town's code of ethics policy, dated December 29, 1970, and the employee manual, dated December 27, 2005.
- We reviewed the Highway Department's collective bargaining agreement that was effective December 13, 2005 to June 30, 2008.
- We selected 15 employees (10 Highway Department employees, three elected officials, and two hourly employees) and reviewed Board minutes, payroll reports, and weekly pay stubs for a three-month period to determine if these employees' hourly pay rates were at the proper rates per union contract and/or Board resolution, and whether weekly payrolls were certified.
- For the entire 2006 calendar year, we tested sick, vacation, and personal leave for all 10 Highway Department employees, comparing the leave records to the 2006 Individual Employee "Calendar Data Sheet" and "Remaining Leave Payroll Report" for all 10 Highway Department employees. We tested this sample to determine if employees earned the proper accrual leaves per the union contract terms, Town personnel posted leave from the weekly timecards accurately, and if personnel properly calculated and carried forward correct year-end balances.
- We reviewed the master employee list and compared it to Board minutes for proper approvals of new employees.
- We traced five employees' annual wages and withholdings from the payroll summary to their W-2 tax forms for 2006.
- We compared the withholdings per the weekly payroll registers to the second quarter 2006 State and Federal withholding reports.

- We reviewed the 2006 weekly time cards for all 10 Highway Department employees for unusual overtime amounts and compared this information to the “Employee Payroll Pay Code History Report” to determine if overtime paid in 2006 was properly documented.
- We tested the 2006 weekly time cards for all 10 Highway Department employees to determine if the time cards were properly completed without any alterations, signed by the employee, and were certified by the Superintendent.
- We reviewed the 2006 bank reconciliation for payroll for accuracy and timeliness.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality’s management controls and those laws, rules and regulations that are relevant to the municipality’s operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendation contained in this report.

APPENDIX D

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