



Baldwin Public Library Payroll

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2013M-335



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear Library 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 Trustees 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 Baldwin Public Library, 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 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 Baldwin Public Library (Library) is located in the Town of Hempstead in Nassau County. The Library is a school district public library, chartered by the New York State Board of Regents, and is overseen by the State Education Department. The Library is governed by a five-member Board of Trustees (Board), each of whom is elected by the Baldwin Union Free School District (District) voters. The Library Director (Director) is appointed by the Board and is responsible for the Library's day-to-day administration. The Treasurer, also appointed by the Board, is the custodian of all Library funds and is responsible for signing all Library checks.

The Library operates one building with approximately 86 employees. Budgeted appropriations for the 2011-12 fiscal year were \$3.8 million and \$3.9 million for 2012-13, which were funded primarily with real property taxes, State aid and fines collected on overdue materials. Each year, the Library submits a budget to the District, which includes an appropriation for Library operations in its annual budget.

Objective

The objective of our audit was to determine if the Library had effective internal controls over payroll. More specifically, our audit addressed the following related question:

- Are Library payroll records accurate and complete?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Library assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, cash management, billed receivables, purchasing, claims processing, payroll and personal services, asset management and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the payroll area and, therefore, we examined internal controls over payroll for the period July 1, 2011 through June 30, 2013. Our audit also disclosed an area in need of improvement concerning information technology controls. Because of the sensitivity of this information, those vulnerabilities are not discussed in this report but have been communicated confidentially to Library officials so they could take corrective action.

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 is included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendation have been discussed with Library officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials generally agreed with our recommendation and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 of Trustees to make this plan available for public review in the Business Manager's office.

Payroll

The Board is responsible for designing a system of internal controls over payroll to ensure that Library payroll records are accurate and complete. Internal payroll controls should include written Board authorization for salaries, wages and fringe benefits. Library-wide policies, collective bargaining agreements and/or individual employee contracts should stipulate each employee's entitlement to the accrual and use of leave time. Controls also can provide assurance that employees are paid and provided benefits in accordance with contract provisions and that transactions are appropriately recorded and authorized by management. Controls include having both effective managerial oversight and a proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. In a small operation, where complete segregation of duties is not possible, active supervision and oversight become even more important. Failure to establish and adhere to a sound system of internal controls increases the risk that payroll records may not be accurate and complete, or fraud or abuse may occur and go undetected and uncorrected.

We found that the Library's Business Manager ensured that individuals reported and paid on the payrolls were bona fide employees and, as such, were paid at their approved salaries and wages and received only the benefits to which they were entitled. However, we determined that there was inadequate supervision and oversight of the payroll process.

The Board approves the hiring of all new employees and accepts all resignations and retirements before any changes to payroll are made. The Business Manager records all salaries and wages, along with employee resignations and retirements and their effective dates in the Board minutes. The Business Manager also enters all new employee information into the payroll system and inactivates payments to employees who resign or retire, without anyone reviewing her work. In addition, the Department heads do not review and approve the timesheets and leave requests. Without these reviews, the Library cannot ensure the accuracy and validity of the information provided. The Library Director, however, reviews and certifies the payrolls, which mitigates some of the risk.

We examined 10 employee payroll records for May 2012 and May 2013 with a gross pay totaling \$21,506 in 2012 and \$23,340 in 2013 to determine if the pay rates were supported by collective bargaining agreement or Board approval and if the hours recorded on the check

register agreed with the time records. We also tested to determine if payroll deductions were in accordance with the collective bargaining agreement or authorized by the employee and if the amounts deducted were accurate. We found that health insurance premiums and union dues were deducted in accordance with the collective bargaining agreement. In addition, the retirement contributions were supported by the New York State and Local Retirement System regulations, and direct deposits and deferred compensation deductions were supported by request forms signed by the employees. We also tested records for these same 10 employees to determine if the correct amounts were deposited in their bank accounts. Of the 10 employees, seven authorized direct deposits and the other three received checks. Based on our test, there were no exceptions.

During the audit process, we informed Library officials about our concerns regarding segregation of duties in the payroll process. The Business Manager and the Director took action to mitigate this weakness. The Accounting Department has added a part-time employee to assist the Business Manager; this will allow for the segregation of some of the duties performed by the Business manager. Additionally, the Deputy Director has been assigned the responsibility of reviewing the time card records before the Business Manager submits the payroll for processing.

Recommendation

1. The Board should continue to monitor the payroll process to ensure duties are properly segregated or mitigating controls are in place.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



BOARD OF TRUSTEES:

Carl A. Williams, President
Shireen Abed, Vice President
Ethell Smith, Secretary
Joseph J. Carroll
James Healy

January 16, 2014

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533
Re: Response and Corrective Action Plan to Payroll, Report of Examination 2013M-335

Dear Mr. McCracken:

On behalf of the Baldwin Public Library, I would like to respond to your Report of Examination resulting from the audit of the Library's internal controls over payroll for the period July 1, 2011-June 30, 2013.

We would like to thank the Office of the State Comptroller for the time spent at the Library and the professional manner in which the audit was conducted. The findings will assist the Board of Trustees and Staff in operating the Library in a manner that exhibits an awareness and understanding of our fiduciary responsibility to Baldwin taxpayers.

Audit Recommendation-Segregation of duties in the payroll process:

1. The Board should continue to monitor the payroll process and to ensure duties are properly segregated or mitigating controls are in place.

The Board and the Library Director took action to mitigate this weakness. The Accounting Department has added a part-time employee to assist the Business Manager. This action would allow for the segregation of some of the duties that are performed by the Business Manager. We also assigned the Director or Assistant Director the responsibility of reviewing the time card records before the Business Manager submits the payroll for processing.

In conclusion, we again would like to thank the Office of the Comptroller for conducting this audit and making recommendations. The Board shares the priority of providing fiscal responsibility for the tax dollars spent and appreciates the support in obtaining this goal.

Sincerely,

Carl Williams
President, Board of Trustees

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Library assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, cash management, billed receivables, purchasing, claims processing, payroll and personal services, assets management and information technology.

During the initial assessment, we interviewed appropriate Library officials, performed limited tests of transactions and reviewed pertinent documents, such as Library policies and procedures manuals, Board minutes, and financial records and reports. Further, we reviewed the Library's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected payroll and personal services for further audit testing.

During the audit, we examined the payroll records and reports from May 2012 and May 2013. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate Library officials and employees to learn about the procedures used to process payrolls.
- We reviewed minutes of the proceedings of the Board.
- We reviewed collective bargaining agreements and individual employee contracts for our audit period to ensure salary payments were properly authorized and in accordance with the agreements.
- We reviewed all pertinent payroll records.
- We selected two payroll period from fiscal years 2011-12 and 2012-13 using the same month from our retirement review. We randomly selected our sample from the total number of full-time and part-time employees. We assigned each employee a number and selected five-part time and five full-time employees from the total population. If for any reason a selected number could not be used, we selected the next number that was randomly generated.
- We randomly selected 10 employees from the May 2012 and May 2013 payrolls to determine if employees were paid at approved rates and if the time records agreed with the check registers.

- We randomly selected 10 employees from the May 2012 and May 2013 payrolls to determine if the correct amounts of the employees' direct deposit are being deposited in their bank account.
- From the above sample, we verified if the payroll deductions were in accordance with the collective bargaining agreement or Board-approved resolution and authorized by the employees and if the amounts were correct.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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